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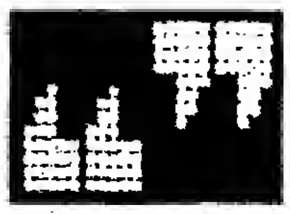

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BAe: Back from the brink
BRITISH AEROSPACE
Four years ago British Aerospace faced collapse. Today it is one of the most successful aerospace companies in Europe. How did it do it? Find out in a special report today (Page 7) and tomorrow

Partial victory for Germany in EU accession talks

Germany won a partial victory in its drive to speed European Union enlargement negotiations with central and eastern European countries. After a two-day summit in Madrid, EU leaders pledged to treat all applicant countries on an equal footing, holding out the prospect of opening negotiations early in 1998. Cyprus and Malta have already been promised accession talks. Page 18

Roh's $370m bribes trial opens: Former South Korean president Roh Tae-woo and eight business leaders go on trial for corruption today in Seoul. Mr Roh is accused of accepting $370m in bribes from 35 industrial conglomerates. Page 5

Austrians vote for no change: Austria's conservative People's party, which provoked the country's second national elections in 14 months, failed to displace the Social Democrats as the country's dominant political force. Page 18

Israel and Syria to resume talks: US secretary of state Warren Christopher returned to Washington after arranging a resumption of peace talks between Israel and Syria following a six-month stalemate. Page 4

Greenbury to stay on at M&S: Sir Richard Greenbury, 59, said he would remain chairman of UK retailer Marks and Spencer for at least three years, but no more than six. Page 19; The chairman speaks, Page 10

French bank plans 40% cut in costs: Specialist French property bank Crédit Foncier de France plans to cut operating costs by up to 40 per cent as part of a restructuring plan to help tackle its financial difficulties. Page 20

Tax charge hits BHP profits: Confronted by slowing economies and a rising tax charge, Broken Hill Proprietary, Australia's largest company, reported interim net profits of A$876m ($654m), compared with A$1.07bn a year ago. Page 20

British Gas to name North Sea negotiator: British Gas is to name a prominent businessman this week as its special negotiator in the growing dispute between the company and North Sea gas producers over £40bn ($63bn) worth of long-term contracts. Page 19

Bankers Trust seeks to sell Czech shares: Bankers Trust, the US bank which bought 40 per cent stakes in two large Czech voucher funds last week, moved to sell on the shares to western institutional investors. Page 19

Red Sea shipping under threat: Yemen accused Eritrea of attacking its troops on a disputed Red Sea island, threatening shipping in the vital waterway. Page 4

Dasa pledges Fokker guarantees: Deutsche Aerospace of Germany said it would continue providing financial guarantees to Fokker, its troubled Dutch regional aircraft unit, while rescue talks with the Dutch government continue. Page 19

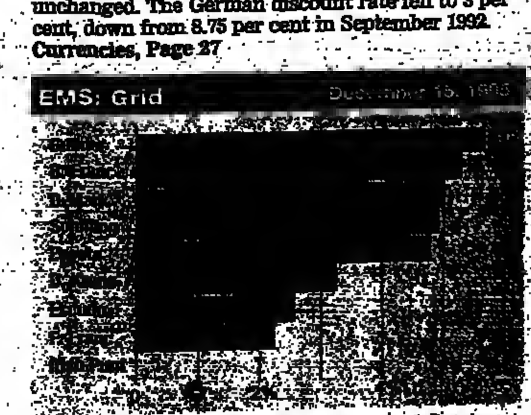
Kimberly Clark offers divestment: Kimberly Clark which last week took over its rival US tissue maker, Scott Paper, offered to divest 25 per cent of its expanded UK capacity to help secure European Commission approval for the merger. Page 6

Rifkind warns Eurosceptics: UK foreign secretary Malcolm Rifkind warned Conservative Eurosceptics they would be "shooting themselves in the foot" if they voted against the government in tomorrow's knife-edge vote on fishing policy. Page 6

Rain stops play in third test: Rain prevented play on the fourth day of the third cricket test between South Africa and England at Durban. With one day remaining, England are 152 for five, 73 runs behind the South African first innings total of 225.

European Monetary System: In a week which saw all the EMS member countries lower interest rates, the order of currencies in the EMS grid was unchanged. The spread between strongest and weakest currencies was also substantially unchanged. The German discount rate fell to 3 per cent, down from 8.75 per cent in September 1992. Currencies, Page 27

EMS: Grid — December 15, 1995



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Austria	Sch35	Greece	Dr400	Malta	Lm0.80	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira60	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	K255	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pes50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils625	Portugal (mainland)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.60			Turkey	L80,000
Germany	DM3.60	Lux	LFr70			UAE	Dh12.00

Yeltsin says Russian PM will retain job after poll

By Chrystia Freeland in Moscow, John Thornhill in Tula and Matthew Kaminski in Kalininyets

Russians voted in larger than expected numbers yesterday in the parliamentary elections, as President Boris Yeltsin insisted he would not replace Mr Victor Chernomyrdin as prime minister whatever the outcome.

Political analysts expected that a higher turnout would favour Mr Chernomyrdin's Our Home is Russia bloc, but early returns suggested that communists and nationalist candidates had polled well in the far east.

The national turnout was forecast to be about 56 per cent, up from 54.3 per cent in the 1993 parliamentary contest. But Russians and their leaders were divided over the longer-term significance of yesterday's poll and presidential elections next June.

Voting in Barvikha, an enclave of the Russian élite 10km from Moscow, Mr Yeltsin vowed that the elections would not alter Russia's political course. Looking vigorous after his recent heart trouble, the president said he would not abandon economic reforms.

But other reformist Russian politicians yesterday attacked the government for creating the conditions for a communist victory. Mr Gennady Zyuganov, the communist leader, confidently promised to create a powerful coalition bloc in the new parliament when it convenes next month.

In Tula, an ancient city some 200km south of Moscow, many of the predominantly elderly voters favoured Mr Zyuganov's policies, which include help for the region's hard-hit defence plants and better living conditions. Mrs Maria Penkova, a pensioner, said: "Mr Zyuganov is not only a communist, he is also a businessman who has wide experience and wants people to live better."

Another pensioner disagreed: "The communists are the same as always. I have voted for Gaidar [leader of the reformist Russia's Choice grouping]. He is a reasonable man and the most intelligent person I have seen on television."

Tula's local hero was Mr Alexander Lebed, the charismatic retired general who is standing as a candidate in the district and is a leader of the nationalist Congress of Russian Communities (KRO), which had been a pre-election favourite.

One middle-aged woman said that she had supported Mr Lebed because he was a strong character who could lead Russia out of its current crisis.

"I have voted for a military man whom I respect and who will stop people being killed in Chechnya. I lost my son there," she said.

The military vote could be significant to the outcome, with more than 80 per cent of Russia's 1.5m military personnel able to participate in the ballot.

Mr Lebed's opposition to the unpopular Chechen War and promise to overhaul a demoralised military also proved popular among soldiers from the large Tamanskaya tank division voting in Kalininyets, a village about 50km west of Moscow. Although hardliners seemed to be the army's favourites, there was a surprising diversity of opinion. Mr Vladimir Belov, a 19-year-old sergeant from Perm, cast his ballot for the Women of Russia Party because, he explained, the group wants to reduce the military service requirement from two years to 18 months.

Russian soldiers in Chechnya yesterday took part in some of the heaviest fighting since the war began in the breakaway region just over a year ago, but Russian officials insisted that the election there had been a success.

Russian authorities said more than 70 per cent of eligible voters in Chechnya had participated in the polls, which opened on Thursday, and that Mr Doku Zavgayev, Moscow's appointee, was likely to be elected as regional leader. However, independent observers said few people appeared to have voted.

Gennady Zyuganov, who has been confident of a victory for his Russian Communist party, leaves a Moscow polling station after casting his vote yesterday
Picture: Reuter

Juppé offers to discuss reduction in hours

By Andrew Jack in Paris

Mr Alain Juppé, the French prime minister, last night pledged to discuss a reduction in working hours and new steps to boost youth employment at a meeting this week to appease France's striking workers.

Mr Juppé, speaking on national television, also vowed to discuss ways to boost economic growth and review the social security system, to answer what he said was the fundamental question of the French: "Will my children find jobs?"

As signs grew that strikers were returning to work in large numbers, one of the leading trade unions expressed some satisfaction with the prime minister's suggestions. However, the Patronat, the French employers' federation, expressed doubts about the "social summit" scheduled for Thursday.

Mr Marc Blondel, head of the Force Ouvrière union, said Mr Juppé's comments meant "we are heading in the right direction".

But Mr Blondel and Mr Louis Viannet, head of the Communist-leaning Confédération Générale de Travail, have called for a broader agenda, including a review of salary levels. Mr Viannet also called for further demonstrations tomorrow.

Mr Juppé said the summit was not the right forum for salary discussions, and defended his opposition to demands by the striking unions to hold the summit before December 21, saying that it needed to be adequately prepared.

Mr Jean Gandois, head of the Patronat, yesterday said he had still not decided whether he would participate in the summit. He ruled out demands to discuss salaries, and also argued that subjects such as youth unemployment would be better dealt with "in calm, rather than during a period of crisis".

In letters to the unions on Saturday, Mr Juppé confirmed the government's climbdown on

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Hong Kong newspapers closed by price war

By Simon Holberton in Hong Kong

Hong Kong's newspaper price war claimed its first serious casualties at the weekend when two well-known Chinese-language dailies closed with the loss of 550 jobs.

The owners of the Express newspaper, the bigger of the two, and the pro-Taiwan United Daily News said they were not prepared to sustain losses indefinitely. Mr Howard Gorges, a director of South China Group, which owns the Express, forecast that the price war would be "bloody, messy and prolonged".

Explaining why South China closed the Express, he said: "We just felt that we could continue to pour money into the paper and in three months' time still not know where we are."

Mr Gorges predicted that the price war would envelop Hong Kong's quality papers. "It is not going to be just a fight at the popular end of the market, eventually it will involve all," he said last night.

Eight days ago the Oriental Press Group cut the price of its flagship Oriental Daily News to HK$2 from HK$5. Oriental Daily News is thought to be Hong Kong's biggest selling newspaper with an unaudited circulation of around 600,000.

Oriental's move was directed at Apple Daily, a new popular Chinese-language title launched by flamboyant entrepreneur Mr Jimmy Lai this summer, to which it is has lost readers. Apple claims an unaudited circulation of 300,000.

To date the fight for readership has centred on Hong Kong's tabloid and mid-market dailies. Rumours were circulating last week that Ming Pao, the leading quality daily, was considering a price cut. Sing Tao Daily News, its main competitor, has the situation under constant review.

The Express, which has a staff of about 400, did not cut its HK$5 news stand price and lost 15 per cent of its circulation last week. This took it below 100,000 for the first time in years.

The Express was a mid-market paper that had produced two notable exclusives: a leak of the draft of the 1984 Sino-British Joint Declaration, and the text of Communist party chief Jiang Zemin's address to the 14th congress of the party in 1992. The latter revelation secured its author a suspended two-year jail sentence in China.

The disappearance of the United Daily News, which employs 150 and which is owned by private investors, will be a particular loss to the authorities in Taipei. It is the last pro-Taiwan paper in Hong Kong, which reverts to mainland Chinese control in 18 months.

BP agrees $3.5bn deal to develop Algerian gasfields

By Roula Khalaf and Robert Corzine in London

British Petroleum has reached an agreement with Algeria's state-owned oil and gas company on a $3.5bn partnership contract to develop gasfields in a remote desert area 1,200km south of Algiers.

After two years of negotiations, yesterday's scheduled signing with Sonatrach ran into a legal hitch within the Algerian government.

It is understood the delay is over a government decree on resource exploration which both BP and Sonatrach expect to be passed in the next few days.

BP officials say they are confident the project is viable in spite of the bloody, four-year struggle between Algerian security forces and Islamist militants. The Islamist leadership has not encouraged militants to target the energy sector, which it considers to be Algeria's economic lifeline.

A unique feature of the deal, Sonatrach's largest foreign joint venture, is the setting up of a joint marketing company to sell gas in Europe. BP is expected to bear about 65 per cent of the project's costs and is entitled to about a third of the profits.

BP said the contract with Sonatrach was intended to last for 20 to 30 years. BP will explore and appraise gas fields jointly with Sonatrach for the first 2½ years, with the total cost of $100m being borne by BP alone.

If sufficient reserves are found, BP and Sonatrach will enter a second five-year phase of drilling and building infrastructure, including a pipeline to Hassi R'Mel, Algeria's main gasfield north of In Salah.

The oil and gasfields, sheltered in the south, are under heavy guard. Although pipelines are periodically sabotaged, they are usually repaired within a day.

Western security analysts no longer fear an Islamist military takeover of the country, although the risk of attacks on the oil and gas sector remains. But they are confident such attacks are unlikely to cause widespread and lasting damage.

Civil unrest has not deterred international companies from seeking contracts in relatively underexplored Algeria, which already relies on energy exports for 95 per cent of foreign exchange earnings. Sonatrach is close to signing a $1.4bn 25-year oil enhancement recovery deal with Atlantic Richfield of the US.

The BP deal falls within the company's strategic commitment to develop its gas production, mostly out of the North Sea, and marks its first foray into the European gas market.

"BP will have had to have taken a deep breath before going into this deal," said Mr James Ball, managing partner at Gas Strategies, a London-based consultancy. "But it means that BP has grown up as a gas company."

Algeria ranks eighth in the world in terms of gas reserves and is the second largest exporter of liquefied natural gas. It provides 68 per cent of Spain's gas needs and 25 per cent of France and Italy's.

BP expects production of 10bn cubic metres from the new gasfield, starting in 2002 at the earliest. Once the dry gas is produced, it will be transported to southern Europe via a new pipeline.

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NEWS: EUROPE

EU leaders cross fingers on Emu

By Lionel Barber

EU Madrid 1995

EU leaders crossed their fingers at the Madrid summit and took the minimum steps necessary to preserve the credibility of monetary union.

The ultimate fate of Emu hangs as much on events in France as on the slowdown in the European economy. But the Madrid egreement on a name for the single currency and a blueprint for its launch on January 1 1999, makes it harder to doubt the political commitment to the project.

On Friday, a dramatic opening exchange showed how Emu is drawing a line between a wavering Britain, a committed German-led hard currency bloc, and a buddled rump who hope to squeeze through the door when EU leaders decide in early 1998 on which countries qualify for membership.

Mr John Major, British prime minister, highlighted the political difficulties inherent in Emu. He spoke of countries forming elitist groupings, the risks of trade wars, and buge budgetary transfers likely to be needed to cope with the strains of a fixed currency regime, both for those inside and outside Emu.

Chancellor Helmut Kohl immediately weighed in. Half-jokingly, he chided Mr Major for being a pessimist. Then he called on colleagues to draw inspiration from the leaders of Serbia, Croatia and Bosnia-Hercegovina, who, just the day before in Paris, had buried their doubts and reacbed agreement in the broader interests of peace. Monetary union is a necessary step toward eventual political union, said Mr Kohl, adding that "political union is about freedom and peace". This is the chancellor's big pitch, the antidote to resurgent nationalism, American isolationism, and Russian collapse. In the words of one EU diplomat present: "Kohl blew Major away."

But another diplomat was less harsh. "Major's presentatioo was calm and reasonable. Many people agreed with him about the problems [with Emu] but the trouble is that he isn't offering any solutions."

Mr Major's hands are tied because of his ever-dwindling majority in the House of Commons. Yet on the admittedly minor matter of the new name for the currency, several delegations said "florin" could have triumphed over the uninspiring "Euro" had Britain been able to press its merits; but to have done so would have provoked uproar in the Tory party.

The question is whether British prevarication is worsening the political vacuum inside the EU, created by weak governments from Austria and France to Greece, Italy and Spain. Once again, French indecision and unpredictability was a summit feature. President Jacques Chirac first campaigned for the Ecu and finally gambled ou an EU-wide poll for a name. Mr Kohl replied that 80m Germans "and a few sympathisers" in other countries would simply vote for the D-Mark. Mr Chirac is also merrily continuing his feud with Mr Lamberto Dini, the Italian prime minister.

This time his *bête noire* was not the weak lira, just the matter of Italy's vote at the United Nations, along with nine other EU members, condemning French nuclear tests.

Other countries appear prisoners of national domestic pressures. The Dutch spent much of the summit complaining about the size of their budget contributions. The Danes and the Swedes spoke up on enlargement, but otherwise they had ons eye on their Euro-sceptic publics.

The political vacuum accentuates the German vision on the future shape of Europe, because no other country has such a clear view. "There is only one other leader who has a truly European outlook," says a veteran EU diplomat, "and that is Jean-Luc Dehaene of Belgium."

In this sense, Mr Kohl's criticism of the European Commission was not an attack on the institution as such, but on its effectiveness under the benign stewardship of Mr Jacques Santer. However much Mr Kohl shares British concerns about intrusive and unnecessary EU-legislation, he, unlike Mr Major, would like to reinforce the authority of the Commission president. Not everything, however, went Mr Kohl's way. On enlargement, the chancellor's hopes of pencilling in Poland, the Czech Republic and Hungary as members of the first wave of applicants foundered on objections from the Nordics and France.

Eastern enlargement remains a strategic priority for Germany, particularly Poland's membership. It is integral to Mr Kohl's vision of Germany bedded down in a united Europe.

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Group of 33: European leaders and foreign ministers posing for a family photograph during the EU summit in Madrid Reuter

> Germany's Chancellor Helmut Kohl half-jokingly chided Britain's John Major for being a pessimist . . . In the words of one EU diplomat present: 'Kohl blew Major away'

Shot in arm for embattled Spanish PM

By David White

Mr Felipe González, Spain's embattled Socialist prime minister, must be feeling better after the Madrid summit.

Showered with praise from other EU leaders for his conduct of events, he is set today to end months of speculation about his own election plans.

Uotil recently, conveotional wisdom had it that he would not run as a candidata for prime minister in the early elections scheduled for March oext year.

Having kept the country in suspense until after the summit, he now seems almost certain to announce that he will, after all, be standing in his seventh election campaign.

He bas won the last four times, but the Socialists have now fallen well behind in the opinion polls. The party's executive committee, meeting today, will press him to carry on, brushing aside s recent call for a change of leadership by a group of well-known Socialists, known as the "Manifesto of the 19".

Mr González is not prepared to make an active bid to have his face once more on the campaign posters. He knows many voters are impatient to see the back of him, but seems likely to be persuaded in order to avoid an even greater loss of Socialist support.

Mr José Borrell, public works, transport and environment minister, is a potential substitute, but it is late in the day for anyone to fill the González gap. "It is the party that has to take the decision," Mr González said after the summit. Not only are fellow Spanish Socialists urging him on, but also fellow EU leaders.

Having taken Spain into the Community in 1986, he is one of the longest-standing participants in European councils.

France's President Jacques Chirac bad no hesitation in volunteering support for an ally of his Socialist predecessor, Mr François Mitterrand. "First of all, bravo to the Spanish presidency," he proclaimed.

Germany's Chancellor Helmut Kohl, doyen of the EU leaders' club, said the summit had beeo "qolte extraordinarily successful" and acknowledged the "great efforts" made by the Spanish. "We have a lot of reason to thank them," he said.

Mr Gonzälez' determination not to hold elections before completing Spain's six-month stint in the presidency, even though his party can no longer count on rallying a majority in parliament, has enraged political opponents.

The presidency has managed to complete most of its heavy list of tasks – setting s programme for tbe single currency, doing the groundwork for next year's Intergovernmental Conference, and securing a series of political and economic agreements.

The last three weeks have seen the signing of the Euro-Mediterranean accord, the New Transatlantic Agenda for EU-US relations and, last Friday, tbe agreement with Mercosur, tbe four-nation Latin American customs union.

They have also seen Mr Javier Solana, Spanish foreign minister, projected somewbat unexpectedly into the post of Nato secretary-general in Brussels. He starts work there tomorrow. For him, at least, the presidency has been miraculous.

Compromise on expansion

By Caroline Southey in Madrid

The Madrid summit's formula for dealing with the EU's enlargement is a classic compromise. It brings the eastern and central European countries closer to membership without pinning down the timetable or conditions for joining the club.

The agreement bridges the gap between Germany's desire to speed the enlargement process and the reluctance of others, notably France, to offer commitments to individual countries. All applicants will be treated equally, but it is left open whether all negotiations will start at the same time.

The final declaration papered over differences between Chancellor Helmnt Kobl – keen to see Germany's eastern neighbours offered preferential treatment – and France – determined not to allow any differentiation this early in the process.

Siding with France were Finland and Sweden, tenaciously fighting any relegation for the Baltic states.

"The important thing is that the leaders of the 11 nations can go home this avening knowing that the EU is completely open to them, and equally open to them. The rest is up to each individual country," said Mr Hervé de Charette, French foreign minister.

This even-handedness was greeted with disappointment by some.

"I had hoped they would be more precise," said Mr Ozes Olesky, the Polish prime minister. "In my heart I know that Poland, Hungary and the Czech Republic could be jndged as those closest to meeting the requirements."

Instead the beads of state said they boped to start negotiations with some countries six months after the end of the intergovernmental conference, which should be concluded by mid-1997, to coincide with the start of negotiations with Cyprus and Malta.

The European Commission will prepare opinions on the countries which have applied so far, so that they can be forwarded to heads of government "as soon as possible" after the conclusion of the IGC. In the light of these reports, and the outcome of the IGC, the council will "at the earliest opportunity take the necessary decisions for launching accession negotiations".

The Commission has also been asked to produce a report on the impact of enlargement on EU policies and an analysis on the future "financial framework" for the post-1999 EU.

The biggest challenge will lie in reforming the two policies which account for 80 per cent of the EU's budget – structural funds and the common agricultural policy – and the budget itself.

The leaders have agreed with the commission that neither CAP nor the regime for channelling aid to the poorer regions should be dismantled wholesale.

All endorsed the principle of CAP reform, bearing in mind commission calculations that extending it unchanged would cost the EU a further Ecu12bn ($16bn) a year.

On aid to poorer regions the Commission has already warned that enlargement without political guarantees for the "cohesion" countries – Greece, Ireland, Spain and Portugal – will be socially unacceptable and politically unfeasible.

But extending the policy without reform would be prohibitively expensive.

Britain estimates that, without reforms, the extra cost of 10 new members could be Ecu38bn a year on top of the Ecu33bn it is expected to cost in 1999.

Opinion split on the Euro

FT writers discover what's in a name for the citizens of Europe

When Europe's single currency is born EU countries will have common standards for budget deficits and public debt – but pronunciation will remain a problem.

In Italian, the word Euro – chosen last week at the Madrid summit as the name for the single currency – is pronounced "eh-uu-ro", possibly to be rendered as Euri in the plural. Euro is pronounced "Oiro" in German. For Frencb analysts, debate is already starting on whether the name requires an acute accent on the initial "e" and an "s" in the plural.

However, many across Europe appear to view the cboice of name as at best an irrelevance. "The mountain really has laboured to bring forth a mouse . . . It's a grey and banal name," lamented Il Sole 24 Ore, Italy's business daily.

Ms Sophie Whitfield, an art photographer in London said "Euro sounds silly – it's a prefix, not a proper word."

In Italy and France, as well as the UK and Germany, there are many who regret the passing of their historic national currencies. Mr Sergio Ajrola, deputy manager of a Milan supermarket said: "They could have chosen from plenty of historical names which were used in several European countries – the ducat, for example. Even sterling was not restricted to England in the past."

But the choice of a name for the single currency has brought the imminence of monetary union into focus – particularly in Germany where commentators emphasised the risks of s single currency. "Euro: A nice name is not enough," said the liberal German newspaper Süddeutsche Zeitung, listing the big challenges of monetary union – particularly the need to create jobs and win public confidence.

There was little grief for the loss of the Ecu, even in France, where it was a unit of currency used in the middle ages – and President Jacques Chirac's preferred choice. It was left to a former president, Mr Valéry Giscard d'Estaing, to see the end of the Ecu as a setback for France. In Germany, s housewife buying her Christmas tree near Frankfurt, said: "Euro is better than Ecu, but we'd rather keep the D-Mark."

In France the term "Euro" has not been associated with great financial success of late. Eurotunnel, the operator of the cross Channel rail link, has suffered losses and plunging share prices, while Euro Disney, the struggling theme park was last year re-named Disneyland Paris as part of a relaunch. The choice of name mattered least in the UK, where divisions between the UK's Eurosceptics and pro-Europeans are too entrenched to be swayed by nomenclature. "I don't think we should use it whatever they call it," said Mr Julian Brewer, a sales assistant at an off-licence.

"I don't like to be considered European." Those in favour of a single currency were equally agnostic. "I am always for a united Europe," said Mr Kasim Katib, manager of a groceries store. "The name does not matter." In the Lord Elgin pub in London's Maida Vale eight out of nine regulars wers against adopting a single currency. "We English don't like change, we are all conservative," said one. Many feared it would lead to inflation and devaluation.

Pro-Europeans said British pragmatism would prevail over the other national trait, complaining – and pointed to earlier currency changes such as the switch to decimal currency from pounds, shillings and pence.

"When they changed from pound notes to pound coins people moaned but they were ready to adapt," said Ms Tracey Crompton, a barmaid.

One small business owner, Mr Melvin Grant, said: "This nation tends to accept whatever happens. There are no riots like in France."

There are no riots in Germany either, but opinion does appear to be swinging against a swift monetary union. The Frankfurter Allgemeine Zeitung accepted the name, but said bluntly: "Everything points to a postponement of the joint currency," rather than an EU divided between ins and outs.

Krishna Guha in London, Andrew Jack in Paris, Andrew Fisher in Frankfurt and Andrew Hill in Milan

> In France, the term 'Euro' has not been associated with great financial success of late, as with Eurotunnel and Euro Disney

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EUROPEAN NEWS DIGEST

Greek premier fights infection

Mr Andreas Papandreou, Greece's prime minister, who has been in intensive care for the past four weeks with lung and kidney problems, was yesterday fighting a new infection, according to doctors at the Onasseion Cardiac Hospital.

A medical bulletin said he was being treated with antibiotics but the secondary infection had not been identified. It was the second infection to strike him in the past five days.

The 76-year-old prime minister has shown no sign of wanting to resign. However, doctors have said that if he recovers, he will have to retire from politics.

Senior members of the governing Panhellenic Socialist Movement have made clear that Mr Papandreou will be asked to stand down early in January so the 170 Socialist deputies can elect a new prime minister.

With most cabinet members reluctant to request Mr Papandreou's resignation, the job is likely to fall to Mr George Papandreou, the education minister and the prime minister's eldest son. *Kerin Hope, Athens*

More Irish Steel talks today

Irish and British officials will meet again in London today to discuss the dispute over Irish Steel, after having failed to agree at weekend negotiations on Dublin's plans to provide I£27m (£28m) to save 400 jobs at the loss-making plant.

Senior officials of the British trade and industry department concluded two days of talks in Dublin to seek a compromise in the wake of a meeting between Mr John Major, the UK prime minister, and his Irish counterpart Mr John Bruton during the European Union summit in Madrid last week.

London claims that support for Irish Steel threatens jobs at British Steel. A special meeting of the EU industry is scheduled for December 20 to resolve the issue.

A cross-party delegation of Irish MPs travels to London today to urge the British to lift the veto, which the UK is insisting on under EU rules on state aid, to block Dublin's sale of Irish Steel to Ispat International, an Indian steel group.

Irish Steel produces around 243,000 tonnes of finished steel. Under compromise proposals put by the Irish side, Dublin would agree to redirect up to 90 per cent of future output to non-EU markets. *John Murray Brown, Dublin*

Fog delays Bosnia mission

The dispatch of US aircraft to secure Tuzla airport was delayed by yesterday freezing fog over northeastern Bosnia, but other Nato soldiers crossed into former Yugoslavia by train.

Nato officials said once the advance aircraft landed in Tuzla to check the radar equipment, winter weather would have less impact on the deployment of the troops.

Operation Joint Endeavour, comprising Nato forces and units from 16 non-alliance countries in the biggest movement of troops across Europe since the second world war, has been slowed by heavy snow throughout Bosnia.

As the deployment begins, delegates from 31 countries at a conference outside Bonn will today consider guidelines for the disarmament of Bosnia's three warring sides. In Dayton, Ohio, last month the presidents of Bosnia, Serbia and Croatia agreed to a formula for reducing their weapons arsenals.

In an effort to bolster his grip on power, Mr Radovan Karadzic, the Bosnian Serb leader, who is under pressure to stand down from Belgrade, tried to form a new cabinet.

His Bosnian Serb assembly, which had been due to consider the peace plan yesterday, neither approved nor rejected the comprehensive agreement which was signed last week in Paris. *Laura Silber, Belgrade*

Bus bomb in Turkey

A bomb exploded under a bus yesterday in a southern Turkish city where Mr Mesut Yilmaz, Motherland party leader, was due to speak just hours later, party officials said.

There were no casualties in the latest political violence before general elections next Sunday, party provincial secretary Sevinc Beyazit said.

The bomb damaged the party's campaign bus in the early hours of the morning in the Mediterranean coastal city of Antalya, where Mr Yilmaz was set to address a rally later in the day.

Unknown assailants in Istanbul threw petrol bombs at two offices of the Islamist Welfare party and a Democratic Left party office at the weekend. Nobody was injured.

Leftist and Kurdish groups have carried out similar attacks in Istanbul. *Reuter, Ankara*

Dini faces third budget vote today

By Andrew Hill in Milan

Italy's government should today propose a third and final vote of confidence on the 1996 budget to a fractious parliament.

The technocratic administration, headed by Mr Lamberto Dini, won two votes of confidence on the budget on Friday, after the right-wing alliance headed by Mr Silvio Berlusconi held back from unseating the government.

In an attempt to deter the right from toppling ths government, Mr Dini warned on Saturday that if the parties wanted to use the vote for political ends, he might decide to pursue normal parliamentary procedure for the rest of the budget.

That would mean opening a debate on 2,200 budget amendments. Debate would probably delay the long-awaited discussion between the parties about whether to prolong the life of the Dini government or press ahead with early polls as Mr Berlusconi and his allies want.

The right has said it will vote against the government today, and has publicly castigated those deputies who did not appear to vote on Friday. Most observers believe, however, that they were told not to vote last week so that the right-wing alliance could maintain its opposition to the government without having to jeopardise the budget.

The government was supported by the former communists of the PDS, the main left-wing party, and the small centre parties.

"The executive does not need a confidence vote. It was only a technical choice to help parliament out," Mr Dini said after the Madrid summit of European Union leaders.

If the budget was approved, he said he would hand in his resignation on December 28. The Italian president, Mr Oscar Luigi Scalfaro, is then likely to ask the chamber of deputies to decide whether Mr Dini should stay on during the Italian presidency of the EU, or give way to allow early elections.

Today's vote, if it goes ahead, will be on fiscal measures, probably the most sensitive part of the budget.

They include amendments to tax breaks for companies which reinvest profits, a popular measure introduced last year by Mr Berlusconi's government, and incentives for companies which want to list their shares on tha stock exchange.

Debate over the latter measure has been muddied by the left's concerns thet it could favour Mediaset, the television business controlled by Mr Berlusconi, which intends to seek a market listing next year.

As the political debate intensifies, Italy's business leaders have repeatedly called on politicians not to sacrifice the budget to political ambition. In an editorial this weekend, Il Sole 24 Ore, the business daily, called for approval of the budget, which it said would conclude the work of the Dini government. "Now it's up to the others . . . to come out into the open and finally say what they want," it added.

Sweden tries to resolve nuclear issue

By Hugh Carnegy and Christopher Brown-Humes in Stockholm

Sweden is today set to take the first, tentative, step towards solving the problems posed by one of the most expensive environmental political promises ever made in Europe – the 15-year-old commitment to decommission the country's 12 nuclear power plants by 2010.

Nuclear power provides half of Sweden's electricity needs. This cheap energy is a vital factor in the international competitiveness of the country's big, energy-hungry industries such as pulp and paper.

The cost to the government of replacing nuclear power threatens to place a heavy new burden on public finances just as the huge state debt is being brought under control. It could skew Sweden's plans to qualify for European monetary union.

An all-party parliamentary commission will today announce its findings on the issue, providing a starting point for what is expected to be a fierce political debate.

A majority of the commission, led by members of the ruling Social Democratic party, is expected to recommend that fulfilling the promise of a complete shutdown by 2010 is unrealistic – a view that economists, industrialists and an increasing number of government ministers have long argued.

However, a strong minority within the commission, made up of the Environment party and the Centre party, remains committed to the original deadline set by parliament after a referendum in 1980.

Mr Ingvar Carlsson, the Social Democratic prime minister, and Mr Göran Persson, the finance minister, who is set to succeed Mr Carlsson in March, have also both stuck to the public stance that the 1980 promises should not be broken.

Even if a consensus can eventually be found that lifts the deadline, finding agreement over how quickly to unwind the industry and which alternative energy sources to invest in will be fraught.

Natural gas – the most obvious alternative – is opposed because it would increase Sweden's carbon dioxide emissions; hydro power is opposed because of objections to damming more rivers; other sources such as wind power are untested, expensive and incapable of filling the energy gap created by the loss of nuclear power.

A key factor behind the debate is that the existing nuclear plants will have a much longer life than originally envisaged. In 1980, it was thought the last reactor, which opened in 1985, would have reached the end of its technical lifespan by then. Now the plants are expected to have a 40-year life, not 25, implying 2012 as the year the first reactor should be closed.

Estimates on the cost of replacing nuclear power differ widely because of varying estimates of demand and alternative sources. Some have put the figure as high as SKr350bn ($52.6bn), although the latest estimate published at the weekend puts it as low as SKr61bn.

However even the low estimates mean a big weight for the government. By comparison, the unprecedented austerity programme of spending cuts and tax increases introduced over the past year by the government will take SKr115bn – or 7.5 per cent of GDP – out of the budget deficit over three years. Finding room to spend a similar sum would be hard without renewed expansion of the state debt – already at 85 per cent of GDP.

This has led industry to question whether decommissioning makes sense even on environmental grounds, particularly when so little is being spent on making safe much more unstable nuclear plants in the former Soviet Union.

Juppé pays high price to save reforms

By David Buchan in Paris

Today will probably see most French strikers making a ragged return to work and the conservative-dominated parliament paving the way for the first government decrees to repay past social security debt and to tackle hospital overspending.

It therefore seems that Mr Alain Juppé, the prime minister, has preserved most of his welfare reforms, but at a high cost to the French economy, to the European cause and to himself.

France's three-week convulsion over reform has ended in a split verdict. Rail workers have won, for themselves and for other public sector workers, the right to keep pension arrangements more generous than in the private sector, as well as complete renegotiation of the plan to streamline the SNCF rail network, and a new president of the SNCF to negotiate with.

But they have not, or at least not yet, knocked out other elements of the Juppé plan.

These include a new tax to repay welfare debt, raising hospital patients' fees and tying hospital spending to the inflation rate, a special charge on pharmaceutical companies and on doctors, and freezing family allowances next year and taxing them a year later.

A senior Juppé aide claims that these are the measures designed to reduce the FFr60bn ($12.3bn) social security deficit to FFr17bn next year and put it in FFr11bn surplus in 1997, and that the now-abandoned pension changes never figured in this deficit-reduction timetable. Why therefore did the government attempt pension reform in the first place, or make such an effort to crack a social security deficit that is only one fifth of this year's FFr322bn budget deficit? The same Juppé aide points out that while "budget deficits are to a limited degree economically acceptable, to run a deficit on social security – a form of insurance – is aberrant". The Juppé team remains unrepentant about the economics of its controversial strategy.

"We cannot be as confident of reducing the social security deficit as we are about the budget deficit, until we have the same centralised control over social security as we do over the budget," says the aide. This is the rationale for the government's plan to displace unions and employers from control of welfare spending, which is to pass to itself and parliament.

But Mr Juppé's political miscalculation of the strength of union resistance to his welfare logic has proved very costly. Some economists reckon the strikes will have knocked 0.2-0.3 per cent off national growth in a final quarter that looked likely to be flat even before the crisis hit.

To the extent that the slowdown depresses tax revenue, it will maker it harder for the government to meet France's Maastricht commitments by slicing at least 10 per cent off the budget deficit in each of the next two years.

Mr Juppé's credibility has been shaken by his concessions to the rail workers. Doctors and nurses do not have the same industrial muscle, but as the welfare reforms proceed further concessions cannot be ruled out.

Hundreds of thousands of people turned out on French streets again on Saturday, to protest against Mr Juppé's policies.

The protests have been as big in relative terms in Bordeaux, of which Mr Juppé is mayor, as anywhere else. While Mr Juppé has been able to enjoy a certain discomfiture within the opposition Socialist party, which knows some welfare reforms are essential but would prefer someone else to carry them out, he has been sniped at from within his own Gaullist RPR party, of which he is president.

Asked last week whether Mr Juppé should resign, Mr Michel Péricard, the RPR leader in the National Assembly, merely said a change of premier was "inopportune in the middle of a crisis".

President Jacques Chirac has been less ambiguous. He has offered expressions of confidence in his long-time lieutenant, saying in a manner reminiscent of Lady Thatcher in the UK that "there is no alternative". But the president, elected in May, has repeated that he can take the long view because he has a seven-year term of office, a statement which necessarily becomes less true as time goes by. Mr Chirac is clearly watching and waiting to see how far Mr Juppé can dig himself out of trouble.

Before the welfare crisis, it was a fairly safe bet that Mr Juppé would at least survive to lead the centre-right into the 1998 elections, thereafter dropping out or being dropped, and reappearing to contest the 2002 presidential poll. It is now a riskier wager.

Strikers spelling out the name of their foe – the prime minister

French unions' protest begins to fragment

By Andrew Jack in Paris

Demonstrations by French trade unions in Paris and around the country on Saturday said much about the way in which opposition to the social security reforms of Mr Alain Juppé, the prime minister, is beginning to fragment.

The number of marchers was below the levels of several previous rallies, and swelled by extremist groups – including several groups of Socialist Worker party activists from the UK – and other organisations including ecologists and the gay lobby.

Even as Mr Marc Blondel, leader of Force Ouvrière, and Mr Louis Viannet, head of the communist-leaning Confédération Générale de Travail, called for further demonstrations this week, trains, buses and metro carriages began to rumble across the capital again as many of their rank-and-file members returned to work.

Part of the problem is that the two union leaders have mobilised widespread support for industrial action – which judging by opinion polls is shared even by frustrated commuters and others not on strike – only by capitalising on an increasingly broad and unfocused range of demands.

Little by little, a number of these grievances have fallen away. The point was well illustrated by one banner on Saturday. Of its four demands, two had been met and the phrases crossed out: the departure of the head of SNCF, the national railway company, and the withdrawal of its restructuring plan.

By making piecemeal concessions, the government may yet be able to hold off on the more substantial remaining two demands: the departure of Mr Juppé himself, and the wholescale withdrawal of his social security plan.

The unions are now partly trapped by their own delegated forms of democracy. Despite the rallying calls from the top, local assemblies have been voting since the end of last week for returns to work, boosted by secret ballots and motivated by government climbdowns and the economic hardships of striking.

Without the energetic militants of the railways and public transport on strike, the effects of any residual industrial action will be much reduced.

That is why both Mr Blondel and Mr Viannet are keen to demand that Mr Juppé's promised "social summit" scheduled for Thursday is held earlier, before the momentum disappears.

Yet the meeting looks increasingly likely to turn into a charade. The head of the employers' federation says he may not even take part, while the unions' demands – including salary rises and shorter working weeks – are becoming so broad that they are unlikely to be seriously discussed.

In some ways, Mr Blondel has boosted credibility with more radical union members by mobilising efforts which forced the government to back down on a number of measures, including removing some of the privileged retirement conditions for "special regimes" in the public sector.

Yet he has so far done nothing to win concessions in the area which will hurt Force Ouvrière most – Mr Juppé's plan to strip away the union's control of the Caisse Nationale d'Assurance Maladie, the healthcare reimbursement agency with an annual budget of more than FFr600bn ($123bn).

He has also built support for the strikes by moving towards a "rapprochement" with the CGT, including a highly publicised handshake with Mr Viannet. That does not go down well with some members of Force Ouvrière, which originally split from the CGT in 1947 because it wanted to remain independent of party politics.

Mr Blondel's two previous leadership election victories are the result of curious political alliances within the union between Trotskyites and members in the private sector more closely linked to the ruling Gaullist RPR party.

His moves towards the CGT could destabilise both these areas of support, just ahead of the union's congress and leadership contest scheduled for February. At least one candidate, Mr Jacques Mairé, has already said he will stand against Mr Blondel.

More moderate union leaders will also not necessarily escape unscathed from the effects of the strikes. Ms Nicole Notat, head of the CFDT union, stood out against industrial action, sympathising with Mr Juppé's reforms and concessions.

Hopes boosted for Syria peace talks breakthrough

Christopher brokers an end to six-month stalemate and announces a timetable for fresh talks and diplomacy

By Julian Ozanne in Jerusalem

Mr Warren Christopher, US secretary of state, returned to Washington yesterday having brokered a resumption of peace talks between Israel and Syria during his Middle East shuttle.

The return of Israel and Syria to the peace table after six months of stalemate comes amid strong signs that both sides believe there are reasons for optimism about a breakthrough under US auspices.

"The new or intensive negotiations provide a real opportunity for progress," Mr Christopher said in Cairo yesterday.

After talks over the weekend with Mr Shimon Peres, Israeli prime minister, and Syrian President Hafez al-Assad, Mr Christopher annnunced a resumption of negotiations and a timetable for further talks and diplomacy throughout January.

The twn sides will meet first next Wednesday fnr twn days nf round-the-clock talks outside Washington. A second three-day round will take place in early January, followed by a Middle East visit by Mr Christopher.

Officials said the breakthrnngh came as Israel agreed to bold talks with Syria unconditionally and to discuss any issue. The talks focus nn peace in return for an Israeli withdrawal from the occupied Golan Heights, captured from Syria in the 1967 Arab-Israeli war. Mr Christopher is believed to have delivered a concrete pledge from Mr Peres that Israel is prepared to make a full withdrawal from the entire Golan Heights as the price to be paid for full peace with Syria.

However, Israel's opposition assailed the resumption of peace talks with Syria, and yesterday said it would dn all it could to stop Mr Peres from ceding the Golan Heights.

"We will certainly do all we can to prevent the government from carrying out its intention to hand over the Golan," Mr Benjamin Netanyahu, leader of Likud, the main hardline opposition party, told Israel Radio.

Mr Peres has also proposed a series of simultaneous negotiations on different levels – political, bureaucratic and military – to discuss all aspects of the peace process. This differs from Israel's previnus approach that the two sides hammer out complex and controversial security arrangements first.

Officials said Mr Assad was also encouraged back to negotiations with the promise that the US would play a much greater role than in the past, becoming an active broker ratber than just carrying messages. Improving relations with Washington, which has Syria on an international blacklist of countries sponsoring terrorism, is one of Mr Assad's most important goals.

But the most important change in the talks is Israel's position on full withdrawal from the Golan. Mr Assad has long maintained that the key to successful negotiations is an Israeli recognition of Syrian sovereignty over the Heights.

Mr Peres has publicly denied he has made any formal pledge through Mr Christopher, but over the weekend be said: "I have no doubt that Israel should pay the full price in return for full peace. I think thet without it there will never be peace. It is possible that a one-time opportunity has arisen to put an end to the issue, to the state of belligerency in the Middle East."

Several Israeli newspapers reported yesterday that if the Israeli-Syrian talks make progress Mr Peres is planning to ask parliament in January to recognise Syrian sovereignty over the Golan Heights. Mr Netanyahu said yesterday be would revive a failed effort to require more than a simple majority for passage of any deal handing back the Golan in Israel's parliament.

A poll for Israel's largest newspaper Yedioth Ahronoth last week showed 55 per cent opposed to a full withdrawal and 42 per cent for it. Of those surveyed, 48 per cent doubted Mr Assad was sincere and 46 per cent believed he was.

Mr Christopher said he had been impressed with the determination of both sides to move into a new intensive phase of negotiations which, he said, Mr Assad had promised would be "building, positive and creative". However, Syria continues to resist Israeli demands the talks be upgraded from ambassadorial to ministerial level. Nevertheless, Israel will next week send Mr Uri Savir, foreign ministry director general, to head its team.

Mr Savir was largely responsible for the breakthrough in secret talks with Palestinians in Oslo in 1993 which paved the way for peace accords with the Palestine Liberation Organisation and with Jordan.

An Israeli border guard keeps watch over Bethlehem's Manger Square AP

Israel's new foreign minister says Syria has shown a change of heart

Two sides aim for Assad-Peres summit

By Julian Ozanne in Jerusalem

Israeli-Syrian peace talks next week will focus on trying to arrange a summit between Mr Shimon Peres, Israeli prime minister, and Syrian President Hafez al-Assad. This would be a "turning point" in Israeli-Syrian peace talks, Israel's oew foreign minister said yesterday.

In his first foreign interview since becoming foreign minister last month, Mr Ehud Barak said Mr Assad bad shown a fundamental positive change of attitude towards oegotiations. For tbe first time in three years of stalled negotiations Mr Assad had promised to be "flexible and creative" and he had also promised to give his representatives to the negotiations e broad mandate, he said.

Mr Barak said this laid a basis for progress, and next week's talks could pave the way for a summit between Mr Assad and Mr Peres. The breakthrough, Mr Barak said, came after Mr Peres preseoted a new negotiating package to Mr Assad through Mr Christopher and agreed to enter into talks "without pre-conditions".

"Assad gave a positive response to these proposals. He sees there is something in our proposals. There are still wide gaps but he is ready to discuss and tbat is an important change," Mr Barak said.

Mr Barak, who met Syria's chief of staff earlier this year, denied that the last talks broke down over Syria's refusal to accept Israeli demands for an early warning station oo the Golan after a peace deal. He said an early warning station was merely ooe element in a wide variety of security options and Israel's security demands were contingent on the extent of real peace.

"There are many ways to achieve our security goals and the exact cocktail should he negotiated between the twn sides," he said. "For some reason the Syrians were unready to deal with the Gestalt of security. Now they are ready."

Israel, he said, wanted a real peace that "pacifies the inner ring of countries" around the Jewish state and ruled out the future prospect of war. Furthermore, secure peace with Syria would allow Israel to be more flexible in talks with Palestinians next year on a permanent status for Palestine.

Mr Barak said the time was not yet ripe for Israel to make a public commitment to Syrian snvereignty over the Golan Heights and a full Israeli withdrawal, Syria's centrel demands. Israel continued publicly to insist the depth of an Israeli troop withdrawal would be commensurate with the depth of peace achieved.

But he said Mr Assad understood that Mr Peres could make "visionary steps if the challenge was met from the other side".

Yemen accuses Eritrea of attack

By Robin Allen in Dubai

Yemen yesterday accused Eritrea of attacking its troops on a disputed Red Sea island, threatening shipping in the vital waterway.

Yemen and Eritrea have both deployed warships and aircraft. Yemeni military sources said Eritrean forces were firing at Yemeni positions on the Red Sea island of Greater Hanish from warships.

The sources said Yemen suffered dead and wounded in the clash which erupted on Friday.

News of the clashes added to existing tension in Sanaa following reports of further Saudi border incursions and the acceptance by some 300 Yemenis of an offer of Saudi citizenship, according to official sources in Sanaa.

The offer of Saudi citizenship was made by officials accompanying Saudi military forces which penetrated more tban 70km sonth of tbe so-called Riyadh line, an undemarcated Saudi-Yemeni border agreed by Saudi Arabia and British colonial authorities in 1935. "Some Saudi units have reached as far south as Thamut, 100km into Yemen and well into the eastern part of the Hadramawt valley," a Yemeni official said.

Reports of the Saudi advances came as talks were due to start in Saudi Arabia on Saturday between Yemen's parliamentary leader, Sheikh Abdullah Al-Ahmar, and the Saudi defence minister, Prince Sultan Bin Abdul-Aziz.

These had been arranged in an effort to defuse tensions following military clashes 10 days ago in the Al-Kharakhir area, 100km west of the Oman-Saudi-Yemen border. Yemeni officials said three Saudi infantry and armoured brigades were involved, while denying any build-up of Yemeni forces.

Saudi Arabia claims its territory extends much further to the south, in addition to which it has demanded a perpetual sovereign lease on a 48km-wide "corridor" alongside the Yemen-Oman border to facilitate its oil exports.

Clinton and Dole seek to restart budget talks

By Jurek Martin in Washington

President Bill Clintoo and Senator Bob Dole, the Republicao majority leader, both urged yesterday a resumption of "gnod faitb" negotiations over tbe budget – but without hinting that an agreement before Christmas was in sight.

Mr Dole said if the president sat down with him and Mr Newt Gingricb, the Speaker, the dispute, which has resulted in a second partial shutdown of the federal government over the weekend, could be settled "in a day, perhaps less".

"I'm not a shutdown advocate," the majority leader said, but conceded that Republicans in the House took a more hardline position. Prior to a meeting with Mr Gingrich, be said that any new "continuing resolution" tempnrarily funding government operations had to originate in the House.

Mr Clintoo insisted his administration had made "far more mnvement" in negotiations than the Republicans controlling Congress. He hoped many of tbe 260,000 federal employees laid off on Friday midnight with the expiratinn of the previous continuing resolution would be back at work this week.

The impact nf the lay-offs was mostly felt over the weekend by angry tourists through the closure of federal museums, monuments and national parks.

The Washington local government was spared closure today, after Republicans agreed to drop a controversial school voucher programme from tbe DC appropriations bill, rendering it palatable to the president.

However, the weekend had mostly been spent with eacb side blaming the other for the collapse of negotiations on Friday afternoon.

Powell may not have slammed door, says Dole

Mr Clinton used his regular Saturday radio hroadcast to accuse the Republicans of deliberately sending government workers bome "in an effort to fnrce through their unacceptable cuts in healthcare, education and the environment".

Mr Dole responded sharply to that, saying the president was "spewing garhage." But Mr Mike McCurry, the White House press secretary, said on TV yesterday that the Republicans had precipitated the Friday deadlock hy refusing to cut more than $4bn-$5bn out of their proposed $245bn (£155bn) income tax reductions.

Mr Leon Panetta, leading the budget negotiations as White House chief of staff, said yesterday the debate "is not just a numbers game, it's about policies that affect people". The Republicans, he cbarged, refused to "walk through" any discussion of the practical consequences of changes to federal programmes.

Mr Dole, in a fractionally more conciliatory mood yesterday, accepted that the size of the tax cut should he "on the table" in any resumed negotiations. But he also charged Mr Clinton with continuing to play "a political game" over the Medicare and Medicaid federal bealth insurance programme.

"It's all politics for the president," he said.

He said the president could instantly mitigate the effect of the pre-Christmas shutdown by signing three annual appropriations bills now on his desk.

Mr Dole alsn thnught that retired General Colin Powell had not definitely "slammed the door" on the idea of running as Republican vice presidential candidate next year. The majority leader, the clear favourite for the party's nomination, said Gen Powell would "answer the call" to more public service if it were correctly couched.

Entertainment software on track for growth

By Alice Rawsthorn

Entertainment software is one of the few industries tbat emerged almost unscathed from recession in the early 1990s and is now returning to growth as economic conditions improve, according to a new study on the sector.

A report by Euromonitor, the researcb consultancy, shows that sales of recorded music, video games and video cassettes showed real growth in almost all the main entertainment software markets last year, except Spain and Italy.

Volume sales rose in all seven countries, including Spain and Italy, but both those markets experienced a 1.9 per cent decline in valne sales in real terms.

Other markets were more buoyant, according to Euromonitor. The US, whicb is the largest single entertainment software market, with sales of $23.3hn (£14.7bn) last year, reported volume growth nf 9.9 per cent and real value growth of 8 per cent.

The rate of increase was more modest in Japan, the second largest market, at $16.8bn, with volume growth of 1.2 per cent and real value growth of 0.7 per cent. The corresponding figures for the $5.1bo German market were 2.4 per cent and 2.8 per cent; with 5.7 per cent and 3.8 per cent respectively for the $4.3bn UK market.

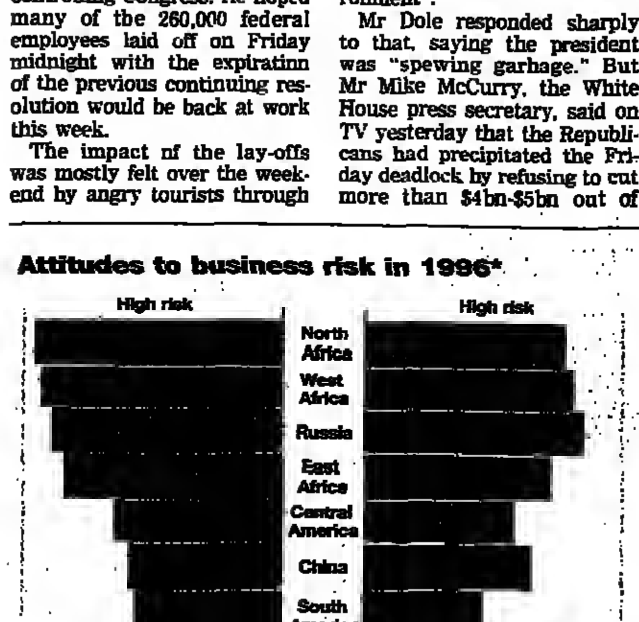
One of the chief catalysts for the market's growth has been the continuing increase in penetratinn of entertainment hardware, such as CD players and video cassette recorders.

The popularity of compact disc has already relegated vinyl records to a small, specialist market of collectors. It has also triggered a decline in sales of pre-recorded audio cassettes. However other digital formats, such as Sony's Mini-Disc and digital compact cassette developed by Matsushita and Philips, have failed to gain a significant market share.

Sales of pre-recorded video cassettes are increasing, according to Euromonitor, but average unit prices are falling sherply. The electronics and entertainment industries hope the new digital video disc systems will have the same catalytic effect on this market, when they appear late next year, as CDs did on audio software.

Entertainment Software by Euromonitor, 60-61 Britton Street, Londnn EC1M 5NA. £1,595.

Attitudes to business risk in 1996*



Source: CRG

*scale based on weighted responses to perceived risk in doing business in different regions by UK companies and US companies

Emerging markets' instability and poor legal framework top concerns

Political worries hit investors

By Stewart Dalby

Political instability and tangled regulatory regimes in emerging markets have taken over from the threat of organised crime as the main concerns among leading UK and US international investor companies, according to a report published today by Control Risks Group, the London-based corporate security and intelligence agency.

The Business Security Outlook, which has been published annually for the past six years, says: "The results of the BSO survey 1996 reflect a definite shift in business thinking.

"Executives are oow becoming more accustomed to dealing with crime and fraud, but as new markets emerge, businesses are now faced with increasingly worrying factors over which they have little control, such as political instability and inadequate legal infrastructure."

The report says that elections and government changes mean half the world's population, including key emerging markets such as Russia, India and China, could be under different leaderships by the end of 1996.

India and Russia as well as the US face elections next year, and there are question marks over wbether deaths among the elderly and ailing leadership in China will bring about political change.

Mr David Battman, senior analyst at CRG, says that in the future businesses will not only have to deal with government regulation hut will have a host of international pressure groups and legalistic burdles to deal witb.

He cites Nigeria as a case where pressure gronps will have a bearing on a company's ability to operate.

"The rise of global environmental activism in the past five years has left international business with nowhere to hide," the report said.

The survey among 100 businesses in the UK and the US found that China was regarded as the top region for doing business among UK businessmen (51 per cent of respondents) and eastern Europe was regarded as tbe best by US executives (67 per cent).

The annual report grades most countries in the world as high, medium, low or insignificant in terms of political and security risk.

Control Risk Group operates 13 offices around the world and employs about 240 people.

It has a turnover of £13m and specialises in four areas: security assessment, political risk assessment, due diligence and crisis management for those who run into trouble in foreign countries.

Business Security Outlook 1996, Control Risks Group CRG, 83 Victoria Street, London SW1H OHW.

INTERNATIONAL NEWS DIGEST

Shell to probe Niger delta

Shell Nigeria has appointed consultants to run an independent environmental survey into the problems of the Niger delta and plans to replace all ageing equipment by 1997. The move follows increasing pressure on the Anglo-Dutch Shell group over its involvement in Nigeria and its relationship with the military regime which recently executed Ogoni activist Ken Saro-Wiwa and eight other Ogonis.

The company acknowledges that it has sought help from the authorities regarding specific threats to its installations but has denied paying the military.

The Ogoni ethnic group has waged a long battle against drilling in the area and has demanded raparations for pollution. Shell conceded that it had caused environmental damage in the delta. "Where the problems are things which we have clearly done, such as oil spills, we have to go and do something about it. We want to make good the problem areas," said Mr Brian Anderson, managing director of Shell Nigeria in Lagos.

Shell produces about half of the 2m barrels-a-day output in Nigeria, Africa's largest oil producer, and most of its 90 fields are on land or in swamps near to communities which resent the lack of local benefits from the industry.

Shell shut down its operations in Ogoniland in 1993 amid threats against staff and sabotage of equipment and says that it will not return until there is reconciliation between all parties. *Paul Adams, Lagos*

Haiti presidential voting begins

Haitians began voting yesterday in a presidential election regarded as a key test for the US-led military effort to restore democracy to the Caribbean nation. The first-round balloting is to pick a successor to President Jean-Bertrand Aristide, a popular former Roman Catholic priest who won Haiti's first free and fair presidential election in 1990. Mr Aristide was forced from office by a military coup in September 1991 and restored under a US-led international military occupation in October 1994.

Constitutionally barred from seeking a second consecutive term, Mr Aristide is expected to be succeeded by former prime minister Rene Preval, the candidate of Mr Aristide's Lavalas political movement. Mr Preval is running on a platform of judicial reform and government decentralisation.

Security in the election is provided by 4,000 Haitian police and 5,800 UN troops. Official results are not expected to be released until December 27. *Reuter, Port-au-Prince*

HIV affects 17m wordwide

Almost 17m adults worldwide were infected with HIV, the virus which can lead to Aids, at the end of 1994 and 6m adults and children have contracted Aids since the immune-deficiency disease first came to light at the beginning of the 1980s, according to revised estimates by the World Health Organisation. This compares with just 1.3m officially-reported Aids cases.

The WHO says sub-Saharan Africa accounts for 11.2m or two-thirds of HIV infections, and three-quarters of all Aids sufferers. Under-reporting is rife in Africa, which has notified WHO of only 440,026 Aids cases, less than a tenth of the continent's estimated 4.5m victims.

In an analysis of HIV prevalence by country, the WHO says 15 countries – all in sub-Saharan Africa – have an infection rate of over 500 per 10,000 sexually active adults. Worst-affected countries are Botswana, Malawi, Uganda, Zambia and Zimbabwe. After Africa, south and south-east Asia have the greatest numbers of HIV infections (3m), witb the highest prevalence rates estimated to be in Burma, Thailand and Cambodia (over 150 per 10,000). Among industrialised nations the highest infection rate is found in Spain (58 per 10,000). *Frances Williams, Geneva*

Murder cases fall in US

The number of murders reported in the US fell 12 per cent in the first half of 1995, the largest decrease in 35 years, the Federal Bureau of Investigation said yesterday. Officials said it was the the most dramatic drop in the murder rate since 1960, the earliest year for which the agency has comparable figures.

The FBI said robberies were down 10 per cent in the first half of this year, the number of rapes decreased by 7 per cent and assaults fell 2 per cent. Attorney General Janet Reno said more community policing and greater co-operation between federal and local police in fighting violent drug gangs were reducing the crime rate. However, Ms Reno expressed concern about the surge in youth violence since 1985, especially since the number of youths will increase sharply over the next 20 years. *Reuter, Washington*

Taiwan raises investment cap

Taiwan will double the ceiling on investment in its stock market by foreign institutions to $400m (£260m), the central bank said yesterday. Each foreign institutional investor is currently permitted to have total holdings of up to $200m in the Taiwanese stock market.

The central bank will also enable foreign institutions to apply for permission to exceed the new limit, but did not say when the new measures will be implemented.

The stock market still remains tightly restricted for foreigners. Individuals are not permitted to buy shares, and the foreign share of a listed company cannot exceed 15 per cent. Officials said the government was studying a proposal to raise the ownership ceiling to 30 per cent. *AP, Taipei*

SA gas leak kills three

Poisonous gas from a blazing chemical plant killed three people and forced the evacuation of 2,500 from a small town 40 km from Cape Town, South African authorities said yesterday. The fire, which began in a field close to the town of Macassar late on Saturday, rapidly spread to the plant, where 15,000 tonnes of sulpbur had been stored for a decade as part of the past apartheid government's strategic stockpiles. The plant is owned by African Explosives and Chemical Industries. *Reuter, Cape Town*

Vietnamese soccer riot flares

Thousands of soccer fans disappointed at a Vietnamese team loss tossed petrol bombs and stones at police in Ho Chi Minh City in a rare incident of civil unrest. At least 29 police were injured, six seriously, and 78 rioters arrested during more than two hours of clashes Saturday night and early yesterday, police officials said.

A crowd began to gather in Ho Chi Minh City, formerly Saigon, on Saturday evening, apparently hoping for a Vietnamese victory in a regional final in Thailand. However, Thailand won 4-0, and the crowd's mood soured. *AP, Hanoi*

Caribbean premiers eye Geest

The prime ministers of three Caribbean islands arrived in London yesterday to try to raise $150m (£97m) from British banks to purchase the banana business of Geest, which markets the islands' fruit in Europe. Mr Edison James of Dominica, Mr John Compton of St Lucia and Sir James Mitchell of St Vincent are confident they can raise the money, an official of the Dominican government said yesterday.

The three islands, and Grenada, make up the Windward Islands, which are the main sources of bananas imported by the UK. The four governments and Fyffes, a banana marketer, are planning a joint bid for Geest's banana business. Noboa, an Ecuadorian company, is also bidding for the Geest operation.

The four islands fear that a sale to Noboa would damage their banana market in Europe because of Latin American objections to the islands' preferred access to the European Union's banana market. The islands' economies are heavily dependent on banana exports. *Canute James, Kingston*

Roh $370m bribes trial starts today

By John Burton in Seoul

Former South Korean President Roh Tae-woo and eight business leaders today go on trial for the biggest corruption scandal in the country' history.

Mr Roh, who will wear a common white prison smock during the proceedings, is accused of having accepted $370m (£234m) in bribes from 35 industrial conglomerates in return for government contracts and other favours during his 1988-93 term.

He is the first Korean head of state to go on trial, following his imprisonment a month ago.

Mr Roh could receive a jail sentence of between 10 years and life if convicted, although most Koreans suspect he will eventually be pardoned.

Joining Mr Roh in the Seoul District Court will be the chairmen of the giant Samsung and Daewoo conglomerates and the heads of the smaller Dong-ah, Dongbu, Jinro, Daelim, Daeho and Hanbo groups.

Prosecutors will outline their case today, with the trial held for one day every two weeks until it ends, probably in early May.

Mr Kim Woo-choong, the legendary founder of Daewoo, is alleged to have given Won15bn (£12.8m) to Mr Roh to win state construction contracts.

Mr Lee Kun-hee, the aristocratic Samsung chairman, is accused of having provided Won10bn to Mr Roh to secure a state licence to begin production of commercial vehicles.

Mr Chung Tae-soo of Hanbo, the only business leader to have been arrested, faces charges of bribing the former president to gain government land for a huge apartment complex in southern Seoul. He was released from prison last week on medical grounds.

The Daewoo and Hanbo chairmen also face charges of helping launder Won97bn from Mr Roh's secret bank accounts and using the money as loans to finance their companies.

Roh Tae-woo confessing to slush fund on TV in October

The other businessmen also allegedly paid bribes to Mr Roh for contracts or licences in Korea's heavily state-regulated economy.

The executives, who face jail terms of up to five years or a Won1bn fine, are expected to receive lenient treatment because of fears that their imprisonment could harm the economy.

In addition, four aides of Mr Roh will be tried. They include Mr Lee Hyun-woo, the former head of presidential security and director of the national intelligence agency, who allegedly collected bribes for arranging meetings between Mr Roh and business leaders.

Others include Mr Kum Jin-ho, a ruling party MP; Mr Kim Chong-in, the chief presidential adviser on economic affairs; and Mr Lee Won-joe, a former senior government bank supervisor. All of them were allegedly involved in Mr Roh's money-gathering activities.

Prosecutors are also examining US records of a criminal case involving Mr Roh's daughter, So-young, and her husband. The couple pleaded guilty at a hearing in San Jose, California, to illegally depositing $192,576 into US bank accounts in March 1990.

Row over Japan mercury spill continues

By Emiko Terazono in Tokyo

The Japanese government's official apology to victims of a mercury spill 40 years ago received a mixed reception at the weekend amid further turmoil over the selection process for the government's victim compensation package.

Many of the victims of the Minamata spill, the country's worst industrial pollution case, were unhappy over comments by Mr Tomiichi Murayama, the prime minister, that the "government had made efforts to avert the crisis at every stage."

The mercury poisoning was detected in 1956 after a chemical company, Chisso, dumped waste in the Bay of Minamata, in the southern island of Kyushu, killing hundreds and crippling thousands of people who ate contaminated fish from the bay.

The central and local governments, however, ignored the outcry from residents and failed to stop the pumping until 1968.

"I express a deep feeling of condolence toward those who have died in pain and my heart is full of apology," said Mr Murayama.

The government's announcement follows agreement on a compromise plan between the last group representing unrecognised victims and the government.

The plan consists of compensation for people not officially recognised as victims because of their relatively mild symptoms.

More than 13,000 victims applied for compensation in the late 1960s, but the government's medical panel nominated only 3,000 seriously afflicted people as official victims.

Although yesterday's announcement officially closes the Minamata case, the selection of those eligible for compensation may cause further controversy.

Although there are some 10,000 people calling for redress, officials estimate that only 8,000 are likely to receive it.

Under the scheme, Chisso will pay Y2.6m (£16,500) to each unrecognised patient, and will also make additional payments totalling Y5bn to five organisations representing the victims.

The central and Kumamoto prefectural governments, which will set up a Y30bn fund based on state subsidies and financing from bonds, will lend up to Y26bn to Chisso and also spend Y4bn on projects to redevelop Minamata.

Showa Denko, another chemical company involved in a poisoning case, will also pay Y2.6m to each unrecognised patient and will contribute Y440m to the victims' organisations.

Of the 2,000 people who have applied for recognition as victims, only 690 have been accepted. Showa Denko will also donate Y250m to Niigata Prefecture to redevelop the region it polluted.

Japanese will indicate preference for old-style consensus or the direct approach, writes **William Dawkins**

Voters to decide who leads New Frontier party

Japanese politicians and voters in the coming days will indicate their preference for the old style gentle consensus or the direct approach in modern government.

The occasion is the start of the first leadership campaign for the New Frontier party since its formation by the merger of nine disparate opposition groups just over a year ago. This will be the first time in a Japanese party election that the winner is chosen by public poll. The winner on December 28 will be the opposition's candidate for prime minister at a general election expected early next year.

On the one side stands Mr Tsutomu Hata, a likeable former prime minister who represents the acceptable, if pedestrian, face of politics, the man of consensus. Against him is Mr Ichiro Ozawa, a tough king-maker bidding for the throne.

Mr Ozawa's skill at outmanoeuvring opponents to get things done makes him unpopular with the Japanese public. Yet he is liked by foreign investors and trade partners. They think he might create more of a centre of power in Japan's diffuse government and are attracted by Mr Ozawa's exhortation that Japan should become a "normal" advanced economy.

On policy, there is little between Mr Ozawa and Mr Hata. They both advocate economic deregulation, a more internationally assertive Japan, more policy-making by politicians and less by bureaucrats, and a rise in sales tax to compensate for the shrinking income tax base of Japan's ageing population.

The difference is approach. Mr Hata stressed yesterday that he preferred gradual change, at least on tax, and is seen by critics as lacking the intellectual drive to set his own agenda. Mr Ozawa sets the agenda, and his forte is in beating, rather than appeasing, opponents.

Ichiro Ozawa (left), tough king-maker, and Tsutomu Hata, likeable ex-premier

Until they became rivals for control of the NFP over the past year, the Hata-Ozawa duo represented complementary, rather than competing, faces of the new Japan.

Mr Hata, who led a coalition government put together by Mr Ozawa for a brief two months last year, once described himself as en actor in a play written by his colleague.

The first act in the drama opened in mid-1993, when Mr Hata, a member of the LDP's most powerful faction for 23 years, led a defection which was orchestrated by Mr Ozawa, causing tha first and so far only collapse of an LDP government.

But they fell out soon after the LDP ousted Mr Hata's government to return to power last year. Their rivalry became open when Mr Ozawa, second in command of the NFP, arranged for the enthronement of another former prime minister, Mr Toshiki Kaifu, as the NFP's first leader.

At its launch, the NFP under Mr Kaifu had high hopes of changing the face of Japanese politics, by creating the first effective alternative to the conservative Liberal Democratic party. The LDP has ruled Japan for much of the past four decades, barring a salutary 10 months in opposition ending in June last year.

But the NFP has struggled to capitalise on voters' dissatisfaction with the ruling party. It has been beset by internal rivalry reminiscent of the LDP from which its founding members came, and a hint of scandal; and it failed to present itself as a clear alternative.

The NFP did well in local elections last July, but on a small turnout. Its standing in opinion polls has since ebbed to a meagre 14 per cent, less than half the LDP's rating, proof of its failure to excite, but also a consequence of the LDP's skill in whipping up bad publicity over the opposition's connections with a powerful religious group.

So the winner's first challenge will be to turn the party's fortunes round. Mr Hata is said by NFP officials to have a lead among the party's 490,000 members, but Mr Ozawa may have a slight overall edge thanks, as always, to the strength of his contacts.

He has the support of three senior NFP figures, and his campaign manager used to lead a party backed by the labour unions, whose votes may as a result come Mr Ozawa's way. Mr Hata's power base rests with Mr Morihiro Hosokawa, a former prime minister who is popular but lacks clout behind the scenes.

Obligations count for much in Japan and Mr Ozawa is owed the tacit support of Soka Gakkai, the powerful lay Buddhist group, able to mobilise between 6m and 7m votes.

His influence is believed to have prevented Soka Gakkai's spiritual leader from being hauled before the parliament earlier this month to face questions about the group's political interests.

Friends among non-party members would not normally count in a party election. But, uniquely, this one is open to anyone prepared to pay Y1,000 (£6.40). Soka Gakkai has ostentatiously told the faithful to vote as they see fit. In practice, ballot papers may be discreetly distributed to those likely to vote for Mr Ozawa, according to the respected political magazine Shukan Bunshun.

The NFP's experiment with grass roots democracy shows that Japan's political revolution is not as progressive as it seemed at the outset two years ago. But at least the two candidates are seeking to sell their ideas, a change from the former dominance of patronage over policy.

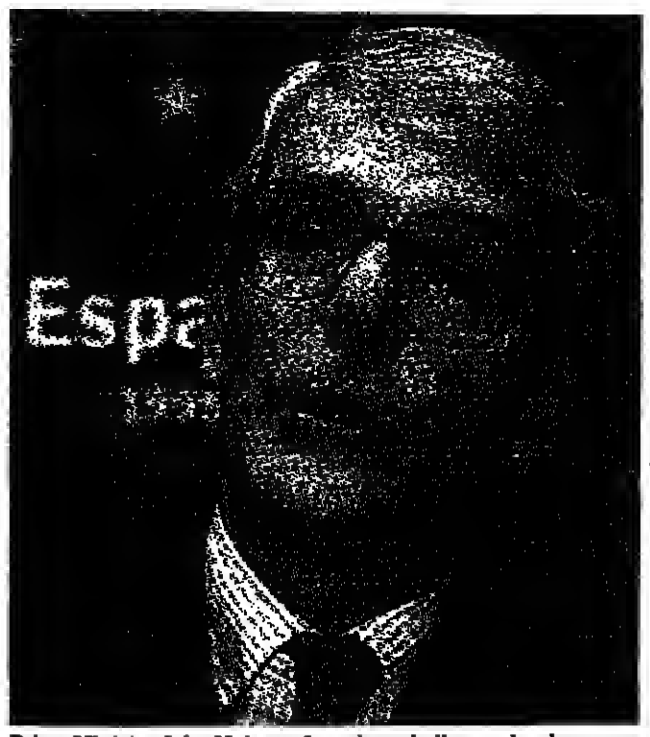
The three parties in the ruling coalition of the prime minister, Mr Tomiichi Murayama, may merge into a single new political entity that could dominate Japanese politics, a veteran politican said yesterday, Reuter reports from Tokyo.

"It is possible that the Liberal Democratic party [LDP], the Socialist party and the Sakigake party will become one party under a name such as the Liberal Socialist party," said Mr Shizuka Kamei, a former LDP transport minister.

The long-ruling LDP is the dominant force in the three-party ruling coalition formed in June 1994 with Mr Murayama's Socialist party and Sakigake, a small group led by Mr Masayoshi Takemura, the finance minister. "There are no longer big differences between the three parties now," Mr Kamei said.

Mr Kamei said the merger could take place some time around the next general elections. Polls are not due until mid-1997 but Mr Murayama is expected to call elections after next year's budget is passed, possibly by the end of March.

Major faces fresh unrest on single currency



Prime Minister John Major: referendum challenge ahead

By Robert Peston, Political Editor, in Madrid

The long-running civil war within Britain's governing Conservative party war over a single European currency and the UK's future in the European Union is about to escalate once more, following landmark agreements at the Madrid summit on the path to monetary union.

The overriding challenge for the prime minister will be how and when to announce a commitment to hold a referendum on whether sterling should enter a single currency.

Such a commitment now seems inevitable, following his decision to resist pressure from his party's powerful Eurosceptic wing that the Tories' general election manifesto should rule out monetary union participation in the lifetime of the next parliament.

On Saturday night he said it would be "folly" to have such a clause in the manifesto, because this would exclude the UK from a debate on the biggest economic decision to be taken in Europe for 40 years.

In deference to Eurosceptic MPs' concerns, he made it clear he has given detailed thought to holding a single currency referendum in the UK. "I have never ruled out the possibility of a referendum," he said. In significant remarks about the timing and circumstances for such a plebiscite, he said "the time would be after the cabinet wished to recommend going in".

But Mr Major will probably not commit himself to a referendum immediately, because with more than a year to run before his chosen date for a general election, he would risk encouraging Eurosceptic Tory MPs to push for what they want most of all: a decision to remain outside a single currency for good.

The urgency of their campaign was enhanced at Madrid, with the name for the new currency chosen – the Euro – and a date fixed, early in 1998, for selecting those to join the currency in the first wave. Eurosceptic propaganda over the coming months will therefore become ever louder.

The Eurosceptic offensive will only be defused if Mr Major succeeds in delaying the 1999 start date for currency union. Much of his efforts at Madrid had been taken up with persuading fellow government heads to launch a detailed formal study of the dangers posed by a two-tier monetary Europe, with only a small minority of countries participating at the outset. He got his way and the work will begin, under the aegis of European finance ministers, next year.

However, he backed up the chancellor's judgment that there is a 60 per cent chance that monetary union will take place in 1999, in spite of UK concerns about its impact.

Conservative Eurosceptics were warned yesterday that they would be "shooting themselves in the foot" if they carry out their threat to rebel in tomorrow's knife-edge vote on fishing policy, *Robert Shrimsley writes.*

The former whipless Euro-rebels are to use the annual fisheries debate to renew their campaign against the European common fisheries policy.

If they are joined by coastal MPs the government could be defeated. With up to 10 Tories threatening to rebel – and one warning that he could resign the party whip – Mr Malcolm Rifkind, foreign secretary, urged them not to play into Labour's pro-European hands.

The vote is purely consultative so defeat would not alter government policy but would be hugely embarrassing for ministers.

Moves to wrap up tissue merger

Roderick Oram on Kimberly Clark's offer to divest capacity

Kimberly Clark, which last week took over Scott Paper, has offered to divest 25 per cent of its expanded UK tissue papermaking capacity to help secure European Commission approval for the merger of the two US companies in Europe.

The commission had objected to the merger because it calculated that a combined Kimberly Clark/Scott Paper would have 78 per cent of UK capacity for making consumer grade tissues and about 56 per cent of all tissue grades.

It would also have dominant market positions through brands such as Kleenex, Andrex and Scotties and a large share of the own-label retail market, together worth about £750m ($1.15bn) a year in the UK.

In its complex latest proposals to the commission, Kimberly Clark is understood to have offered to sell either its Prudhoe plant near Newcastle upon Tyne in northern England, or its Larkfield plant near Maidstone, Kent, in the south. They represent respectively about 25 per cent and 20 per cent of the combined group's UK capacity for all grades.

Kimberly Clark's preferred option appears to be to find a way to keep Prudhoe by, for example, offering to make toilet tissue there for others. But the signs from Brussels are that the Commission could require it to be sold outright.

P&G, the US consumer goods maker, is a formidable competitor for Kimberly Clark and Scott Paper in the US where it has the leading brand of toilet paper and kitchen towels. But it has limited European paper operations and little in the UK besides its market-leading Pampers disposable nappies.

Kimberly Clark is also believed to have offered to licence for a period the Kleenex name to another manufacturer on toilet paper and kitchen towels but not on facial tissue where the powerful brand is virtually a generic name.

"We would no more consider licensing Kleenex for facial tissues than Mars would their chocolate bar," a Kimberly Clark executive said.

Some competitors and other parties opposed to the merger such as the Consumers Association say dividing the brand and giving only a limited licence life present problems.

"It's like splitting Heinz baked beans and Heinz soup," says one competitor.

The idea of splitting the brand and only offering parts of it for a maximum of 10 years is the main unresolved sticking point for many parties opposed to the merger.

"Consumers won't be able to differentiate" who owns what said Mr Stephen Locke, policy director at the UK Consumers' Association. "The more successful are Kleenex kitchen towel and bathroom tissue, the more they will benefit Kleenex facial tissues" still owned by Kimberly Clark.

"We want strong competition between Kleenex and Andrex through a clean separation of the brands. This is a litmus test of the EC merger taskforce and its legislation."

By the commission's calculations, Kimberly Clark's latest offer would cut its share of the combined branded and own-label UK toilet paper market by about 14 percentage points from between 50 per cent and 60 per cent; of the kitchen towel market by about 7 percentage points from between 40 per cent and 50 per cent; and of the facial tissue market by 3 percentage points from between 40 per cent and 50 per cent.

There is substantial evidence that UK consumers pay quite a bit more for their toilet, kitchen and facial tissues than continental consumers. Papermakers say price comparisons are unfair because consumers in the UK have the choice of higher quality, more varied and more readily available products than those on the continent.

Last week, shareholders of Kimberly Clark and Scott Paper approved the $9.4bn worldwide merger although the EC ordered the companies to keep their European operations separate until the antitrust issues were resolved. The EC's decision is expected shortly before a January 22 deadline.

Irish government aims to break weapons impasse

By John Murray Brown in Dublin

The Irish government will today present new proposals on the Northern Ireland peace process in an attempt to end the impasse over paramilitary weapons when it makes its first submission to the independent arms commission set up last month by the London and Dublin governments.

The Irish are expected to call on the IRA to call off punishment beatings and end training and recruitment, arguing that these undertakings should be sufficient to allow Sinn Féin, its political wing, into talks on Ulster's future with the other constitutional parties.

Dublin is also seeking a verbal undertaking from Sinn Féin that it has renounced violence.

Britain has demanded that the IRA start decommissioning its weapons before Sinn Féin can join all-party talks on the province.

Sinn Féin is due to offer its views to the three-man commission today. However, Mr Gerry Adams, the party president, warned that Sinn Féin is not a "conduit or a proxy" for the IRA. "The IRA speaks for the IRA," he said. "The IRA has made its position quite clear – it is not going to surrender its weapons to anyone."

On this, Sinn Féin is supported by Dublin, which has repeatedly said that any handover of arms at this stage is unrealistic.

However, Irish officials hope Mr George Mitchell, the former US Senate leader who heads the commission, may be able to devise alternative confidence building measures which would enable the unionists to join in all-party talks.

The IRA's refusal to make any movement to decommission its large arsenal has been the main stumbling block to progress since the ceasefires 15 months ago.

Amid some signs of grassroots restiveness with the Sinn Féin leadership, Dublin is aware that the arms issue could undermine Mr Adams's authority if pressed too hard. One Irish official said: "A debate about decommissioning can so easily become a debate about recommissioning."

Mr Mitchell has declined to be drawn on the details of the negotiations, indicating that he was "listening" to various views and had no intention of prejudging the outcome.

Irish and UK officials are expected to discuss the arms issue on Wednesday at the Anglo-Irish intergovernmental conference, amid reports that Mr John Major, the UK prime minister, plans to visit Dublin later this week in a bid to bolster the two governments' joint position on the peace process.

The arms commission is expected to end its first round of meetings today and plans to hold a second round of talks in mid-January. It is due to report to the two governments by mid-February.

UK NEWS DIGEST

Rail network to get £10bn boost

Railtrack – the company which owns the track and signalling operations of the former British Rail – yesterday gave a much-needed boost to the British government's plans for rail privatisation with the announcement of plans to spend £10bn ($15.3bn) on improving the rail network amid signs of growing opposition to the government's sell-off programme among Tory MPs.

The company, which is due to be floated on the stock market next spring, said its 10-year investment programme would allow it "to deliver a railway network for the 21st century".

Mr Robert Horton, Railtrack chairman, commented: "The privatisation of the railway gives Railtrack the freedom to look not just for two or three years ahead but for 10 years or longer. We will be able to develop long-range investment programmes free from the short-term limitations of public sector finance."

The announcement of Railtrack's investment plans represents the most positive news for rail privatisation in recent months. The programme has suffered a stream of reverses, culminating in an Appeal Court ruling last Friday that the franchising director had acted unlawfully in setting minimum service levels well below the present timetable.

But the announcement came too late to defuse growing anxiety among Conservative MPs. A group of senior Tory MPs will express concern over the progress of privatisation at a meeting with Sir George Young, transport secretary, later this week. *Charles Batchelor, Transport Correspondent*

Lloyd's reinsurance plan delay

Lloyd's of London has been forced to delay the seeking of provisional government authorisation this month for the large reinsurance company it plans to launch to take over billions of liabilities outstanding on old insurance policies.

The postponement will add to the pressure Lloyd's executives face early next year when the 300-year-old insurance market's recovery plan is due to be implemented.

The reinsurance vehicle Equitas is crucial to the plan because it would separate Lloyd's from its past problems and cap liabilities of lossmaking Names, the individuals whose assets have traditionally supported the market.

Lloyd's now hopes to receive authorisation by the end of February when Names are due to be told how much Equitas will cost them.

An announcement is expected this week on the sale of Lloyd's of London Press, which is owned by the insurance market and publishes *Lloyd's List*, the UK's oldest daily newspaper. The sale is expected to raise £50m-£70m ($76.5m-$107m) and is part of fundraising efforts under Lloyd's recovery plan. *Ralph Atkins, Insurance Correspondent*

Lottery regulator under fire

The future of Mr Peter Davis, Britain's national lottery regulator, was hanging in the balance last night as he prepared to defend his actions to the Department of National Heritage today.

Mr Davis, the director-general of Oflot, has been called to account for his admission that he accepted free flights from GTech, the lottery equipment manufacturer which is a member of the Camelot consortium to which he awarded the national lottery licence.

He faces an interview with heritage department officials, led by Mr Hadyn Phillips, permanent secretary at the department. Mr Davis has stressed that he will not resign and will have to be forced out. "My conscience is absolutely clear," he said at the weekend. *Robert Shrimsley and Raymond Snoddy*

Mobile phone bill shift

Many of Britain's 5m mobile telephone users can expect smaller bills next year because Vodafone, the market leader, is launching new tariffs for its digital services from April.

And analysts suggest that Cellnet, owned by British Telecommunications and Securicor, will be forced to follow Vodafone's example, sparking a price war in the UK's mobile telephone market.

Vodafone is reacting to competition from Orange, the network launched by Hutchison Telecom only 20 months ago but which has taken a substantial market share by offering low charges, simply explained. Vodafone is to copy the Orange system, pricing calls by the second instead of the present minimum of one minute and thereafter in units of 30 seconds for each call. *Kenneth Gooding*

هكذا من الاصل

It was within an ace of becoming Britain's biggest corporate collapse. Now it is a pivotal player in Europe's aerospace industry. In a special report, today and tomorrow, Bernard Gray explains . . .

How BAe pulled back from the brink

Four years ago British Aerospace stood on the brink of failure. The company was Britain's biggest exporter, the maker of Rover cars, Tornado fighters and a partner in Airbus. It had turnover of £10bn a year, yet it was within an ace of becoming Britain's biggest corporate collapse. Today, BAe is one of the strongest aerospace companies in Europe, and may well lead the consolidation of the European defence industry.

This remarkable transformation has required a huge restructuring of BAe's operations and a revolution in its manufacturing techniques and management style.

Almost everything about the company has had to change – from decisions at the top about future strategy to the smallest working practices on the shop floor. "Everyone has had to go through a great deal of pain to transform the company," says Dick Evans, BAe'a chief executive. However, BAe cannot afford any complacency. It is in fiercely competitive markets heavily reliant on two major defence projects and its productivity still needs improving.

The tough regime means BAe is better placed than most European companies to cope with drastic changes sweeping through the global aerospace industry, as military budgets are slashed in the post cold war era and commercial aircraft markets become ever more competitive. The US industry is consolidating rapidly and the same process faces Europe.

The company's near-collapse was all the more dramatic because it came as such a shock to the outside world. BAe, after all, appeared to be blessed with strong cash flow, a solid balance sheet and a healthy order book. Even its City advisers had little warning of the trouble ahead.

One adviser recalls that in the summer of 1991 he went to a routine meeting with Professor Roland Smith, BAe's chairman. "Almost out of the blue he said to me, 'could we do a rights issue?' I thought, BAe was money in the bank, why does it need a rights issue? Then I realised that something was badly wrong."

The rest of the world realised a few months later when BAe announced its £432m rights issue. It ushered in a run of bad news which sent the share price plunging from almost £6 to around £1 over the course of the following year. Its recovery, to almost £8 today, has been almost as dramatic as the action needed to revive the company's fortunes.

The seeds of BAe's problems lie deep in its past. It started life as a disparate group of businesses brought together as a nationalised company by the Labour government in 1977 and floated off four years later in one of the first Conservative privatisations. Many BAe managers see the small balance sheet the company had at privatisation as the source of its problems. To them, its technological and engineering skills were never in doubt, but BAe never had the financial strength to support them.

There is some justice to this view. In 1981 the Ministry of Defence all but indemnified companies against losses. Development work, and even most manufacturing, was done at the MoD'a risk: defence contractors simply earned a profit according to a formula set out by Whitehall.

Most of BAe's work fell into this category so it had little need of a large balance sheet to bear the brunt of risk.

Times, however, were changing. By the mid-1980s Sir Peter Levene's reform of the MoD'a procuremant system was beginning to force more risk on to defence companies. BAe was also increasingly involved in two areas which required capital: civil aircraft and defence exports. Most notably, it won a £20bn oil-for-aircraft deal with Saudi Arabia, known as the Al Yamamah contract.

Prof Smith, the former head of stores group House of Fraser, who took over as chairman of BAe from Sir Austin Pearce in 1987, thought he had the answer to the balance sheet problems. Within 12 months he had bought Rover, the UK car group, from the government for a song. Its huge assets apparently bolstered BAe's balance sheet, and the carmaker's fortunes were looking up: it was just breaking even on £3bn of turnover after a decade of losses.

Rover's surplus land, as with that of Royal Ordnance, bought by BAe three months before Smith became chairman, was in good locations such as Oxford and Enfield and was ripe for redevelopment in a booming property market.

But buying Rover was a blunder. It was like being given a big country house, without the wealth to maintain it: the impression of substance gives comfort, but the financial demands soon swamp the pauper's ability to cope.

Rover's assets, tied up in tools, robots and stocks, were simply not useful to BAe. They sat on the balance sheet and made the City comfortable, but they could not be redeployed to add weight to the core military and civil aircraft businesses.

Even the surplus land, which BAe pushed under the umbrella of Arlington Securities after it had paid an eye-brow-raising £278m for tha company in 1989, proved dead weight. The property market had topped out and business parks would prove hard to turn into cash.

Worse, Rover kept gobbling up cash. Executives from the car company would arrive at BAe's headquarters periodically and ask for another £200m for new model development. "Havn't you just had £200m?" would come the reply. They had, but the inexorable demands of the car market meant a constant cash drain which BAe could ill-afford.

The pain intensified with the simultaneous downturn in the civil aircraft market and military cuts at the end of the cold war. BAe had been manufacturing regional jets for about $20m, selling them to finance houses for $25m and at the same time agreeing to lease them back at high rates for 25 years. BAe would then place the aircraft, normally with poorer, weaker airlines on, say, five year leases with options to return the jets earlier if necessary. The apparent $5m profit was booked.

As recession struck, many airlines returned the jets. Since thair real valua was only around $15m they could only be rented out at poor lease rates which did not nearly cover the cost of BAe's own lease payments, if they could be leased at all. Yet while cash was flowing out, new aircraft were still being made and profits were still showing up in the company's accounts.

By 1991, cash was flowing out of Rover, out of commercial aircraft and even out of property, as the ambitious Arlington continued to spend. What masked the problem was cash coming in from Saudi Arabia. But this was advance payment for aircraft which had to be built, and as these were made most of the cash flowed out to suppliers or in wages.

BAe's rights issue document revealed that £800m had flowed out in the first eight months of 1991 and that profits would be half those in 1990. As the share price plummeted, Prof Smith was forced from the chair and the rights issue flopped.

Dick Evans, a bluff Lancastrian who had come from BAe's northern military aircraft business, survived as chief executive partly because he was credited with holding the keys to the relationship with Sandi Arabia: a link deemed central to BAe's survival. His relationship with Smith had been strained as both were dominant personalities. Sir Graham Day, a former head of Rover and a BAe board member, stepped in as caretaker chairman and began looking for a new management team and solutions to the crisis. After several senior businessmen had turned down what seemed to be a poisoned chalice, John Cahill, a slightly stiff and formal man who had previously been chief executive of BTR, took the chair.

Evans promoted Mike Turner, who had been a highly successful head of defence sales, to run the civil aircraft business. John Weston, an engineer who had risen rapidly, had already started to reform the defence business. George Simpson, a tough Scot, remained as chief executive of Rover. In the summer of 1992, Richard Lapthorne, an accountant who was highly regarded in the City, joined from Courtaulds as finance director.

Tha first priority was to stop the cash outflow. The longer term strategy was to focus on the defence business, which was profitable and which the company understood, and to put the civil aircraft business on a viable footing. Interim results in September 1992 showed that for every £1 earned in defence, 97p was lost in civil aircraft.

Turner produced a plan to cut costs in the regional jet business and form e joint venture with Taiwan Aerospace, which was looking for a foothold in the sector. But if the Taiwan deal fell through, the business was to be closed, and in September 1992 the company took a £1bn charge, enough to accomplish a shutdown as well as writing off the cost of the accumulated aircraft leases. While the joint venture with Taiwan came to nothing, the cost reduction was sufficiently successful that the regional jet production line was kept open.

To release cash, everything which was not central to the defence and civil aerospace businesses was put up for sale. Corporate jets, which needed heavy investment for a new generation of products, went to Raytheon; Ballast Nedham, a Dutch construction company no longer needed for large projects in Saudi Arabia, to a consortium led by ING bank; the satellite business to Matra Marconi Space. Arlington, which could not realistically be sold in the short term, was run to generate cash.

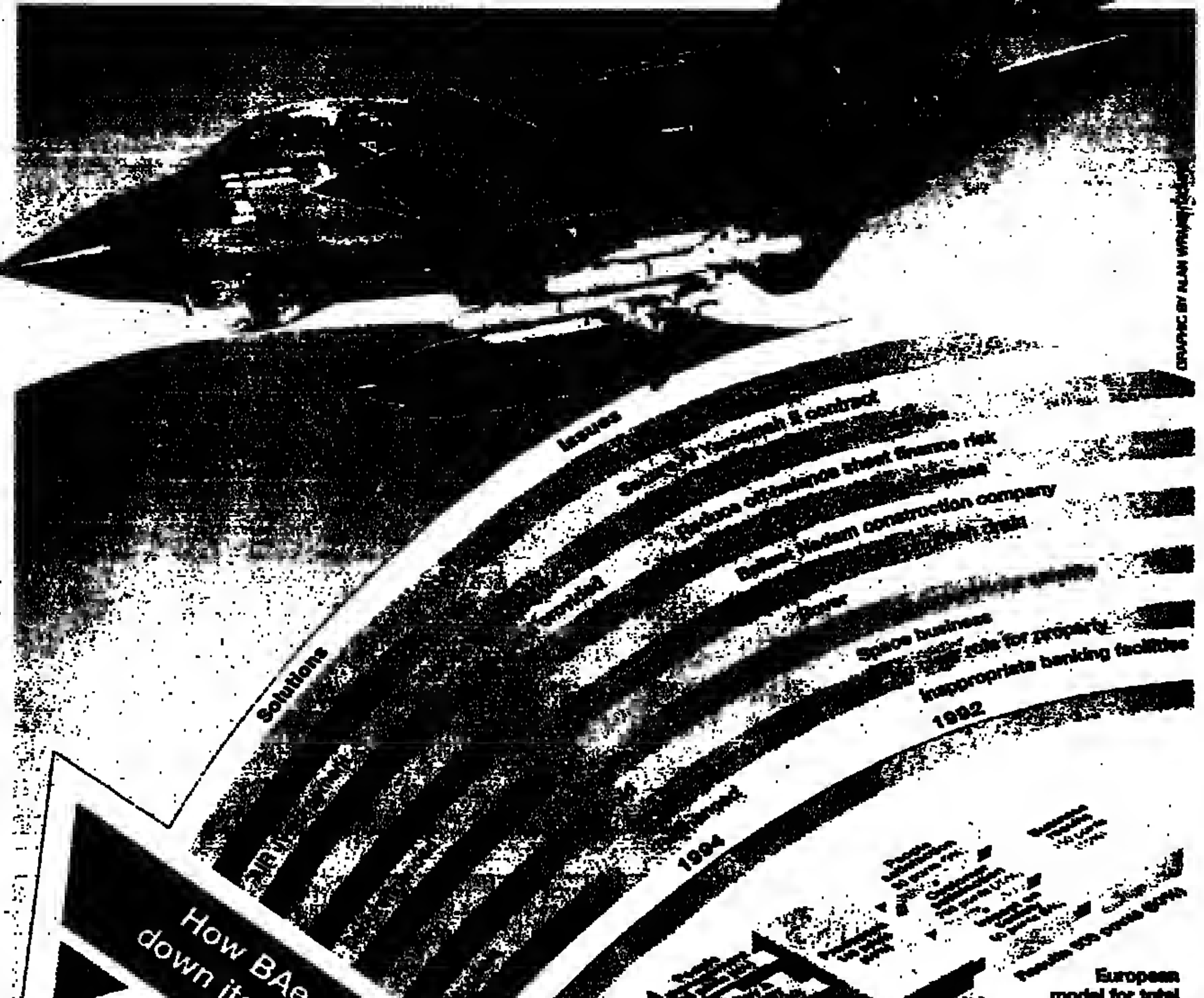
Two external developments also bolstered the company's position. In late 1992, following e strong stand by Malcolm Rifkind, UK defence secretary, Germany withdrew a threat to quit the Eurofighter programme, which is central to the future of BAe's military aircraft business. In January 1993, Saudi Arabia signed the contract for the second stage of the Al Yamamah deal, which produces £2bn a year in revenue to the company. It also escaped the financial constraints of banking covenants which prevented it from falling below an agreed level of assets. It refinanced its bank debt in 1993, replacing the asset measures with earnings targets.

From that moment it became possible to sell Rover, with its unusable assets, and turn a financing drain into cash. BMW approached BAe in late 1993, but its initial offer was not high enough. When it came back early in 1994 with the £800m BAe had asked for, BMW's only condition was that the deal was done quickly.

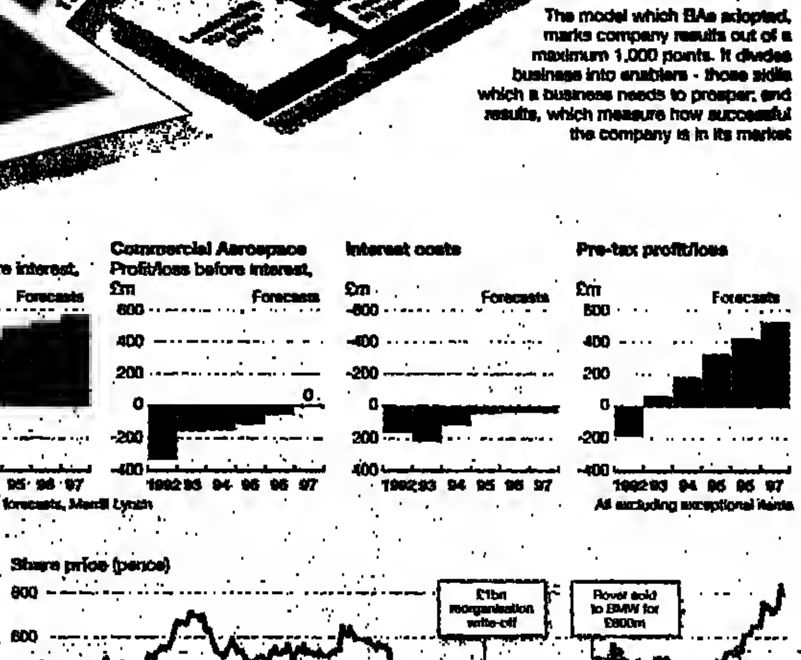
All these cuts, culminating in the Rover sale, took BAe full circle, back to its defence and civil aircraft core business, albeit with the same problem: a small balance sheet. But relations within the management team had become strained. Cahill'e views often differed from the rest of the executives, and his prolonged absences in the US, where he lived, did not help. A boardroom coup saw him leave in April 1994, to be replaced by Bob Bauman, the former SmithKline Beecham chief executive, whose easier style fitted better with Evans's tough approach.

Ironically, now that the company is back in calmer waters, its balance sheet is likely to be bolstered by a jewel which lay almost un-noticed for years in BAe's jumble of businesses – a stake in the cellular phone network now known as Orange. When Orange is floated, probably in the first half of next year, BAe's one-third stake may be worth £600m.

Financially strengthened and with its cost base down, BAe has been through much of the pain which is now striking its continental competitors. The heavy losses at Daimler-Benz Aerospece and Aerospatiale are a reminder thet BAe's difficulties are by no means unique. Having resolved the problems first, however, BAe has created the capacity to influence the future of the European industry at a time when leadership and expertise are badly needed.



Dick Evans: chief executive



'Managers must have the courage to trust their people'

At BAe'e Chester factory, which makes wings for Airbus, there is a hint of religous zeal in the air. Despite a halving of staff numbers over five years, morale is high. Everyone seems committed to beating Boeing for leadership of the world airliner market.

The visitor is also struck by signs of a dramatic change in working practices. The plant has introduced Japanese-style "cells" – self-contained teams of workers – whose notice boards detail everything from factory profitability to production rates and current problems.

Chester – and other factories in the group such as the Samlesbury and Warton military aircraft operations near Preston – bear witness to a revolution in both attitudes and production processes in manufacturing operations. The result has been sharply increased productivity and a new aggression towards markets.

It is a far cry from five years ago when several factories, including Samlesbury, were locked in a bitter engineering unions strike. Samlesbury has become e showpiece factory, with £38m of new investment. Lostock, a neighbouring site producing missiles, won the Department of Trade and Industry award for most improved factory last year. Chester was held up earlier this year by Roger Freeman, the then defence procurement minister, as an example of e world-beating site.

Competitors want to know how it has been done. Production line managers from McDonnell Douglas's vast fighter plant in St Louis have visited Samlesbury to study its ways of working. Aerospatiale and Daimler-Benz Aerospace are trying to find out how BAe manufactures its Airbus components so much more efficiently than its continental partners.

The changes draw heavily on long-established Japanese "lean manufacturing" techniques, which streamline the production process, and the Total Quality Management ideas adopted widely among Japanese and American companies. However, they are not the result of a decision by BAe's top management to introduce the latest methods at a stroke ecross the group. Rather, they stem from individual decisions taken by each of BAe's businesses in a desperate fight for survival – and they have been accompanied by factory closures and heavy job losses.

In the civil aircraft business, employment fell from 25,500 to 11,500 between 1991 and 1995. Defence has been cut from 61,000 employees in 1988 to just under 30,000 today, with the Dynamics missiles business hard hit. Its staff numbers have been slashed from 25,000 in 1989 to 2,500.

"We had to find new ways of working if we were going to survive," says John Weston, chairman of BAe's defence business. ". . . the downturn in many markets was so severe that we could not be competitive by manufacturing in the same old way and cutting costs in the same old way."

Each business faced its own moment of truth some time between 1988 and 1991. For Kevin Smith, until recently the managing director of the military aircraft business, the crunch was the cancellation of the eighth batch of Tornado aircraft for the Royal Air Force following the fall of the Berlin Wall. Chris Geoghegan, who runs BAe's Airbus division, points to the need to scale up output when the highly successful Airbus A320 came on line. The company could no longer treat the operation as a hand-made cottage industry. Mike Turner, chairman of BAe's civil aircraft business, says the regional jet operation realised it had to halve manufacturing costs or close the production line.

Just as each of the businesses had its own crisis, so each found a different source of inspiration.

Many plants were influenced by one of BAe's own businesses: Rover, the car manufacturer in which Honda took a stake, had already introduced Japanese cells, cut stocks and removed layers of hierarchy.

Weston: had to find new ways of working

Kawasaki, the Japanese engineering company which produced parts for BAe's civil aircraft business, was another important factor in introducing BAe to lean manufacturing ideas. Dick Evans, BAe's chief executive, invited e team from Japan to look at the way BAe operated and suggest changes. Several of the businesses brought in consultants. At BAe Defence, the turnaround effort began with a series of brainstorming sessions organised by John Weston early in 1990.

Whatever the source, each team came up with remarkably similar answers. Several were obvious: workforces needed to be cut, in many cases drastically; stocks and work-in-progress had to be slashed.

Suppliers had to be persuaded to cut their cost bases. BAe could not do so alone and hope to survive, since some of its defence operations bought in up to 85 per cent of the value of their final product.

Lean production techniques led to the formation of manufacturing cells, flexible teams which eliminated job specialities and hierarchical grades. Self-certification reduced the need for inspections by quality controllers. Central stores were removed at several sites, including Samlesbury. In their place came kits, containing all the parts necessary for a cell to complete a particular task.

Since the kit box is transparent, it is immediately obvious if a part is missing, and preventing the completion of an assembly. Once the cell starts using a kit, another is automatically called for to replace it, "pulling" stock through the system in a Japanese *Kanban* technique.

This sharply reduces the volume of parts held in store, and completion rates rise because there are fewer shortages.

The businesses also rationalised the number of suppliers and developed ways to work closely with those that remained. "Wa buy in over 50 per cent of our equipment in civil aircraft," says Mike Turner, "and our suppliers buy in 50 per cent of their goods. So there are tremendous gains to be made from working together."

The changes have put many of BAe's businesses back on a commercial footing. Its civil aircraft business, having run up operating losses of £337m in 1992 will be back to profit by 1997. The time taken to produce a wing for an Airbus A320 has fallen from 108 days to 59 and the final assembly of a Tornado takes half the time it did four years ago.

Perhaps surprisingly, the changes in working practice and job cuts have been achieved without industrial strife. Both management and workers have had to suspend the entrenched, cynical attitudes which have dogged British manufacturing.

Fear has been a powerful catalyst. The BAe labour force realised that drastic change was necessary if the company was to survive in the face of intensifying global competition. For example, Chester's Airbus wing factory recognises that the opposition is not its own management or workforce, but Boeing.

Jack Dromey of the Transport and General Workers Union accepts that change is inevitable if BAe is to prosper and broadly welcomes Japanese manufacturing techniques. "The workforce understands the need for increased productivity but job insecurity is a concern."

BAe's managers, for their part, recognised they must set clear goals and communicate the need for change if they were to win understanding and co-operation.

"Once you have explained the challenge and broken down the initial suspicion, you can take an item to the team that makes it and say, 'if we cannot produce this part for half its current cost, we are going to lose the business'," says Chris Geoghegan. "Then you let them come up with solutions. It is amazing how creative people can be." John Weston adds: "Managers must have the courage to trust their people, it is the only way to get the process started."

BAe operations, conscious that competitors are eroding the gains they have made in recent years, have produced "stretch" targets to get another quantum improvement in productivity. Central managment has also become involved. For the past year it has been trying to co-ordinate the efforts of the various businesses and establish a common approach to management systems and processes. It hopes this will bind the businesses and improve the flow of technology, manufacturing and business ideas across the group.

The team behind the initiative started with BAe's top 25 managers and has expanded to the top 130. From there the group's ideas, which centre around setting a list of standards for the company, will roll out across BAe next year, with the emphasis on encouraging involvement.

One consultant closely involved in the initiative says that a culture of change has really caught hold inside BAe. "Often when companies try to change, the process stops the moment the consultant walks out of the door. But BAe has decided that it is really important. Some of its top people are spending o third of their time on this programme."

Kevin Smith, who was appointed to run the corporate change programme last month, says the focus is on improving results, rather than on change for its own sake. "In issues such as cycle times to manufacture items and reducing product costs, there will be radical changes in our approach. We will be setting demanding targets and want to establish performance that is better than anyone else."

One tool being used to standardise BAe's approach is the European Foundation for Quality Management model *(see graphic above)* which scores a company's performance, both in how its processes work and the results which flow from them.

Companies can assess themselves on a range of criteria, from leadership skills to production processes and customer satisfaction, to get an overall view of their business performance end financial results. BAe currently lags well behind the best performing companies in Europe, such as Hewlett Packard and BOC, but the model focuses attention on areas which need improvement. Within the aerospace industry, BAe has gained a great advantage with its revolution in working practices. For while the ideas it has implemented are common in some manufacturing industries – notably cars – the aerospace sector has been much slower to adopt them.

Many US companies have consolidated, but have not yet adopted the techniques. Continental European companies are only beginning painful change. The upheaval on BAe's shop floor may prove as important as its financial overhaul in giving the company a leading role in the restructuring of Europe's aerospace industry.

TOMORROW
Where BAe goes from here

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Air London Int 2.4p
Aquarius Plus Clrd FRN 2000 $284.38
Assoc British Ports 10⅞% Bd 2015 £1087.50
Bear Stearns FRN 1998 $157.26
Cable & Wireless 6½% Bd 2003 $65.0
Chester Water 2.12p
Country Casuals 1.41p
Daiwa Europe 4¼% Nts 1998 Y1593750.0
Ebara 7.2% Bd 1998 Y720000.0
Export-Import Bank of Japan 8¼% Gtd Bd 2004 $412.50
GMAC Australia 10% Nts Dec 1995 A$100.0
Gaz Metropolitain 10⅞% Db Dec 1995 C$108.75
General Motors Acceptance 10⅝% Nts 1995 £106.25
Gold Int Fin Tranche A Fxd/FRN 2002 Y5500000.0
Do Tranche B 2002 Y311232.0
Hankyu 5.85% Bd 2002 Y585000.0
Do FRN 1996 Y21012.0
Honeywell $0.26
Japan Airlines 5½% Bd 1999 Y550000.0
Do 5.7% Bd 2002 Y570000.0
Do 8⅛% Gtd Nd 1996 $406.25
Japan Dev Bank 6⅞% Gtd Bd 1999 $343.75
Kansai Elec Power 8¾% Nts 1996 C$87.50
Lloyds Bank Ser C Var Rate Sb Nts 1998 £174.21
M & G Recovery Inv Tst 1p
Do Geared Units 1p
Do Package Units 1p
Mercury Asset Mngmt 6p
NEC 5.7% Bd 2002 Y570000.0
Pilot Inv Tst 0.65p
Prudential Funding 8¼% Nts Dec 1995 C$82.50
Santander Fin Iss Sb Var Rate Nts $4320.92
Sanwa Australia Gtd Fxd/FRN 2002 $3273.47
Scotland Int Fin 14¼% Gtd Fxd/FRN 1996 $31.23
Sino-Thai Eng 1¾% Cv Bd 2003 $17.50
Smart (J) 6.6p
Sumitomo Chemical 5.6% Bd 1999 Y560000.0
Do FRN 1997 Y18484.0
Tokyo Elec Power 6% Nts 1996 Y60000.0
Woolwich Bldg Scty 11⅝% Sb Nts 2001 £581.25
YTB Fin Gtd Fxd/FRN 2002 $7200.0
Yasuda Tst Asia Pacific Fxd/FRN 2002 $3374.58
Yasuda Tst & Banking (Luxembourg) FRN 2000 $158.62

■ TOMORROW
Barclays Fin (Jersey) 10⅝% Secd Dep Nts 1995 $1062.50
Birmingham Midshires Bldg Scty FRN 2000 £171.40
CSR Fin 7½% Gtd Bd 1995 $375.0
DBS Mngmnt 3.5p
Dickie (James) 3.5p
Essex & Suffolk Water A 43.4p
Do N/Vtg B 43.4p
Export-Import Bank of Japan 8½% Gtd Bd 1997 C$85.0
Finsbury Growth Tst 2.1p
Forte 7¾% Nts 1996 $775.0
Fujitsu 7⅜% Bd 1997 Y737500.0
Graystone 0.34p
Hitachi Credit 7⅛% Nts 1996 $71.25
NT & T 9½% Nts 1995 $475.0
Overseas Inv Tst 2.6p
Speciality Shops 0.8p

■ WEDNESDAY DECEMBER 20
Alcan Aluminium $0.15
Assoc British Ports 11⅞% Bd 2011 £593.75
Bradford & Bingley Bldg Scty FRN 2005 £18979.11
Burmah Castrol (Jersey) 9½% Cv Bd 2006 £47.50
Coventry Bldg Scty FRN 1997 £172.96
DKB Int Fxd/FRN Dec 2004 $32723.96
Daiwa Int Fin (Cayman) 7⅞% Bd 2006 $7875.0
Eksportfinans 6% Nts 1999 C$60.0
Enron $0.2125
Essex & Suffolk Water 3½% Perp Db £1.75
Do 4% Perp Db £2.0
Do 5% Perp Db £2.50
Fidelity Special Values 1p
Finnish Export Credit 8¼% Dual Currency Bd 1995 Y82500.0
General Motors Acceptance Nts Mar 2000 £41.67
Hambro Insurance Services 1.85p
Italian Int Bank Sb FRN 1996 $311.35
Mount Charlotte Invs 10¾% 1st Mtg Db 2014 £5.375
Murray Split Cap Tst 2.9p
Do Units 29p
NSK 7.05% Bd 2000 Y705000.0
NT & T 8½% Nts 1996 $850.0
PowerGen 6.5p
Tokyo Elec Power 9⅝% Nts 1996 Ecu96.25
Do 10⅝% Nts Dec 1996 C$106.25
Unilever FL1.48
Unilever 7.05p
Wah Kwong Shipping HK$0.117

■ THURSDAY DECEMBER 21
Adelaide Bank FRN 1996 $15.45
Cobham 4.2% 2nd Pf 2.1p
Hambros 2.5p
Do N/Vtg 2.1p
Havelock Europa 1.2p
Mazda Motor 4.05% Bd 2001 Y405000.0
Mercury Keystone Inv Tst 12.5p
Nursing Home Properties 0.8p
Pfizer $0.26
RTZ Canada 7¼% Gtd Bd 1998 £362.50
Sketchley 1.1p
WEW 0.35p
Woolwich Bldg Scty 10⅛% Sb Nts 2017 £1012.50
Do FRN 1999 £172.96
Yuen Foong Yu Paper Mfg 2% Bd 1999 $200.0

■ FRIDAY DECEMBER 22
American Int $0.085
Break for the Border 0.5p
Coats Viyella 4.625p
Commercial Loans on Inv Prop Sec (No 1) Class A Comm Mtg Bckd FRN 2009 £161.0
Do Class M1 £197.27
Do Class M2 £202.26
Do Class B £275.80
Ex-Lands 0.5p
Foreign & *Colonial Eurotrust* 1.25p
Fuerzas Elec de Cataluria 7.81% Global Nts 2001 Pta78100000.0
Do 7.81% Nts B 2001 Pta78100000.0
Do Nts C 2001 Pts 78100000.0
HSBC Americas FRN 2009 $151.67
Hercules $0.21
Lasmo 10⅜% Db 2009 £5.1875
Lowland Inv 6.5p
Malaysia Mining M$0.11
Mansfield Brewery 1.7p
Marks & Spencer Fin 7⅜% Gtd Nts 1998 £73.75
Mitsui Step-up Nts 1997 Y3000000.0
Nationale Investeringsbank 6½% Bd 1994 £61.25
Nationwide Bldg Scty Sb FRN 2000 £192.28
Do Sb FRN 2004 £179.20
Newcastle Bldg Scty 10¾% Perm Int Brg £53.75
Peugeot Talbot 7⅝% Nts 1997 £76.25
Riverview Rubber M$0.10
SGW *Fin Gtd* FRN 1998 £17.48
Sainsbury (J) 6¼% Nts 2000 £4.125
St. James's Place Capital 1.5p
Standard Chartered Und Prim FRN £87.26
Unilever 7⅜% Nts 1998 £73.75
Yeoman Inv Tst 6.4p

■ SATURDAY DECEMBER 23
Devenish (JA) 10¼% Db 2017 £5.125

■ SUNDAY DECEMBER 24
Manchester 3% Rd Cons £0.75
Do 4% Cons Irrd £2.0
Metropolitan Water Kent Water Works 3% Db £1.50

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Benchmark Grp, Gloucester Hotel, Harrington Gardens, S.W., 12.00
Bridport-Gundry, 23, Gresham Street, E.C., 12.00
Ferraris Grp, Old Bridge Hotel, 1, High Street, Huntingdon, 12.00
Foreign & Colonial Special Utilities Inv Tst, Exchange House, Primrose Street, E.C., 2.30
Ivory & Sime Enterprise Capital, 1, Charlotte Square, Edinburgh, 12.30
Kleinwort Second Endowment Policy Tst, 10, Fenchurch Street, E.C., 12.30
Murray Split Capital Tst, 7, West Nile Street, Glasgow, 2.30
Raine, Mickleover Court Hotel, Mickleover, Derby, 10.00
TR Far East Inc Tst, 3, Finsbury Ave, E.C., 12.00
BOARD MEETINGS:
Finals:
Aberdeen Tst
Fairbairn European Smaller Co's Index Tst
Kunick
Interims:
Bramway
British Thornton
Crest Packaging
Edinburgh Japan Tst
Foreign & Colonial Smaller Co's
Ingham
I & S Optimum Inc
Ivory & Sime
Jones & Shipman
Lawrence
Moorgate Inv Tst
Mosaic Invs
Schroder Split Fd
Rolfe & Nolan
Victoria Carpet
Westrust

■ TOMORROW
COMPANY MEETINGS:
British Assets Tst, 1, Charlotte Square, Edinburgh, 12.30
Fidelity Special Values, 25, Lovat Lane, E.C., 12.00
Finsbury Growth Tst, The Brewery, Chiswell Street, E.C., 12.00
Foreign & Colonial Eurotrust, Exchange House, Primrose Street, E.C., 12.15
Majedie Invs, 3, Minster Court, Mincing Lane, E.C., 12.15
Scottish Value Tst, Caledonian Hotel, Edinburgh, 12.00
UK Estates, 19-21, Spring Gardens, Manchester, 11.00
BOARD MEETINGS:
Finals:
Eurotherm
First Choice
Windsor
Interims:
Bailey (CH)
Howden
Murray Smaller Markets
Radiant Metals
Templeton Emerging Markets

■ WEDNESDAY DECEMBER 20
COMPANY MEETINGS:
Foreign & Colonial Emerging Markets Investment Trust, Exchange House, *Primrose Street, E.C.,* 12.15
WEW Grp, Forte Crest Hotel, Bothwell Street, Glasgow, 11.00
BOARD MEETINGS:
Finals:
Legal & General Recovery Inv Tst
Loades
Rodime
Interims:
Arlington Estates
Electric & General Inv Tst
M & G Second Dual Tst
Murray Split Capital Tst

■ THURSDAY DECEMBER 21
COMPANY MEETINGS:
Broadgate Inv Tst, 99, Charterhouse Street, E.C., 12.30
Edinburgh Inca Tst, Donaldson House, 97, Haymarket Terrace, Edinburgh, 12.00
BOARD MEETINGS:
Finals:
Abtrust Emerging Economies Inv Tst
Burndene Invs
St Davids Inv Tst
Interims:
Winchester Multimedia

■ FRIDAY DECEMBER 22
COMPANY MEETING:
Ex-Lands, Stonecutter Court, Stonecutter Street, E.C., 10.00
BOARD MEETING:
Final:
Kelsey Inds

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

PUBLIC NOTICES

oftel
Office of Telecommunications

PROPOSED MODIFICATIONS OF THE CONDITIONS OF THE LICENCE OF BRITISH TELECOMMUNICATIONS PLC (BT)

1. The Director General of Telecommunications (the "Director") in accordance with section 15(3) of the Telecommunications Act 1984 (the "Act") hereby gives notice that, following his consideration of the report of the Monopolies and Mergers Commission (the Commission) on the reference made by him on 27 April 1995 with respect to number portability (the "Reference"), and having had regard to the modifications specified by the Commission by which the adverse effects specified in that report could be remedied, he proposes to make *modifications* to the *licence granted to British* Telecom*munications on* 22 June 1984 (the "BT licence").

2. The effect of the modifications which the Director proposes to make is set out in the Schedule below.

3. The Director proposes to make the modifications for the following reasons:

(1) In making the Reference, the Director required the Commission to investigate and report on certain questions relating to the matter specified in the Reference. The matter was that, since BT had been unable to reach agreement on the question of costs with a telecommunications operator to which, under the BT licence, it had been directed to provide portability, and since the BT licence made no provision for the Director to resolve such a dispute, and the unresolved dispute impeded the conclusion of negotiations, BT had not introduced number portability;

(2) In reporting to the Director, the Commission concluded that this matter operates and may be expected to operate against the public interest and specified *the following* adverse *effects:*

(a) that competition in the market for directly provided telecommunication services is being and can be expected to continue to be, inhibited; and

(b) this inhibition of competition is detrimental to the interests of consumers in that prices charged for telecommunications services are likely to be higher, quality and variety of service lower and choice diminished compared to what would otherwise be the case;

(3) Having had regard to the modifications specified by the Commission, the Director s proposed modifications are, in the Director s opinion, requisite for the purpose of remedying or prevending the adverse effects specified in the Report in that the conditions of the licence as modified under the proposal and having the effects set out in the Schedule below would facilitate the introduction of number portability and constitute the most effective means of achieving that end.

4. The Director is required by section 15(3) of the Act to consider any *representations or objections* which are *duly made* and not *withdrawn.*

5. Representations or objections to the proposed modifications may be made to:- Alex Blowers, OFTEL, 50 Ludgate Hill, London EC4M 7JJ (telephone:0171-634- 8798) no later than 19 January 1996.

Copies of the proposed modifications may be obtained from Andrew Tarrant at the above address (telephone: 0171-634-8781).

SCHEDULE

[Note: Number portability is a facility provided by one telecommunications operator to another whereby a customer of one such operator can switch supply of directly-provided telecommunication services and retain the original number.]

1. Condition 34B would be modified so as to delete references to number portability and its implementation and to re-number existing provisions accordingly.

2. Condition 34C *would set out all provisions in the* BT *licence relating* to the provision of number portability.

3. The Director would have a power to direct BT to provide number portability to any Qualifying Operator from a specified date and in accordance with a Functional Specification.

4. The definition of number portability, called Portability in the modification, is based on the same definition as that used in the Reference. It is intended that the definition of Portability would embrace the provision of a facility to operators that will not only allow customers to retain use of the telephone numbers which relate to the property where they live or work, (geographic portability) but also allow customers for services such as freephone (0800), local charge(0345) and premium rate services (0898) to change operators (non-geographic portability) while retaining the same numbers. The definition is also intended to cover continued service from the operator, by reference to the same number, if the customer moves from his place of work or home and wishes to keep his original telephone number (mobility). Neither non-geographic portability nor mobility can be offered, for technical reasons, at present. The Functional Specification is a document which is produced by the Director, following consultation with BT and other interested parties. As technical capabilities develop, so the Functional Specification will set out the technical methods by which non-geographic portability and mobility may be provided.

5. In order to fall within the definition of Qualified Operator , an operator must notify BT that it is, within a specified period from the date of the notice, in a position to provide reciprocal Portability in the area in which it operates.

6. The existing licence condition makes provision for a separate direction to be made with respect to each operator, provided that portability is technically feasible, a cost-benefit analysis has been carried out and consulted on, and the operator is willing to agree to provide reciprocal Portability. The Commission's Report and specified modification indicated that only the requirements of technical feasibility and reciprocal portability should be retained. Under the proposed modification, the Functional Specification will deal with technical feasibility, and the operator's offer to provide reciprocal Portability will remain as a pre-requisite to BT's obligation to provide Portability. The making of a single direction as proposed by the modification would avoid any unnecessary administrative delay which might be caused if a separate direction had to be made with respect to each operator who required BT to provide it with Portability.

7. Following the making of the direction, it is proposed that the Director would make a determination of BT's reasonable costs and the standard charges it may make to operators for the provision of Portability, which would allow the recovery of those costs and be subject to certain rules set out in the condition. The Director considers it essential, given the existing delay in the introduction of Portability and the adverse effects found by the Commission, to ensure there should be no reason for any further delay on the grounds of inability to agree financial terms between BT and other operators, and to this end would propose to have the power to make such a determination so that BT will be required to provide Portability on reasonable terms. The first determination would cover the period from the date specified in the direction to 31 March 1997, and thereafter determinations would be made in respect of each financial year. Each determination would be based on fully allocated costs, and calculated on the basis of the Financial Statements and Forecasts produced by BT for the purposes of its obligations under the Interconnection and accounting separation provisions in its licence, unless at some future date the cost-basis for determining interconnection charges is altered, in which case the costs and charges for Portability will be brought into line. The cost-basis and the circumstances under which it might alter were specified in the Commission's modification.

8. Determinations will specify BT's costs within the various categories referred to by the Commission - System Set-Up Costs, Per Line Set-Up Costs, Administrative Costs and Additional Conveyance Costs. As under certain provisions specified by the Commission, BTs System Set-Up Costs are irrecoverable, as are its Additional Conveyance Costs after 31 October 1997. Between the time when BT first provides Portability until 31 October 1997, the proposed modification would follow the formula specified in the Commission's modification on the costs of Additional *Conveyance: the costs of providing Portability under* the *more* technologically efficient method known as Call Drop- Back are to be subtracted from the costs of its provision during that initial period, and only half of those costs may be recovered in charges to Qualifying Operators. Accordingly, the standard charges determined would allow for the recovery of Per Line Set-Up Costs, Administrative Costs and, to the limited extent set out in the provisions, Additional Conveyance Costs. This reflects the modification proposed by the Commission.

9. As under the Commission's proposal, the Director would first have a .power to determine that any cost is not reasonable if lower cost methods could have been used to implement any particular aspect of Portability, and in such an event, he could disallow such a cost either in whole or in part. Second, the Director would determine into which category of cost any individual item ought properly to fall. In the event that the Director considered that any item of cost did not reasonably fall within any of the specified categories, the Director would have a residual discretion as to whether and to what extent such an *item should reasonably* be recoverable. Finally, in making any of the annual determinations of costs and charges, there will inevitably be an element of estimation, since the annual determinations are to be made on the basis of BT's Financial Statements and Forecasts. The proposed modification would therefore provide for subsequent determinations to take account of inaccurate estimates.

10. Provision is made for a consultation procedure to be followed before making any determination under the modified condition.

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1. The Director General of Telecommunications (the "Director") in accordance with section 12 (2) of the Telecommunications Act 1984 (the "Act") hereby gives notice that he proposes to make modifications to the licence granted to British Telecommunications on 22 June 1984 (the "BT Licence").

2. The principal modifications which the Director proposes to make are described in the Schedule below. The Director also proposes to make a number of minor and consequential modifications for the purposes of the principal proposed modifications as well as some minor amendments to the Interconnection and Accounting Separation modifications made on 31 March 1995.

3. The Director proposes to make the modifications described in the Schedule in order to remove a regulatory constraint on BT's retail pricing which he considers is no longer appropriate in an increasingly competitive market. The Director hopes this will encourage BT to introduce a greater choice for customers through more varied packages of exchange line rental and call charges. The modifications ensure that those with low bills have continued protection. Removing the RPI+2% constraint on BT's line rental charges, allows the abolition of the access deficit contribution regime. This will increase the transparency, simplicity and fairness of interconnection arrangements and reduce uncertainty for those investing in the UK telecoms industry.

4. The Director is required by section 12(2) of the Act to consider any representations or objections which are duly made and not withdrawn. Following consultation, the Director proposes to make the modifications forthwith following BT's agreement to them.

5. Representations on or objections to the proposed modifications may be made to - Natasha Good, OFTEL, 50 Ludgate Hill, London EC4M 7JJ (telephone: 0171 634 8925) no later than 16 January 1996.

Any confidential material should be clearly marked as such and separated out into a confidential annex. All representations or objections received by OFTEL, with the exception of material marked confidential, will be made available for inspection in OFTEL s library. OFTEL encourages interested parties to place the non-confidential parts *of their* representations, objections and comments on their own Internet pages, in addition to sending OFTEL a hard copy. Comments on this document (if they are relatively short) can also be sent to OFTEL at the following e-mail address: press.office.oftel@gtnet.gov.uk

6. In a second stage of consultation, interested parties are invited to send comments to OFTEL no later than 30 January 1996 on the representations and objections received in the first stage. Copies of the proposed modifications (with an explanatory memorandum) may be obtained from Peter Hammond at the above address (telephone: 0171 634 8841).

SCHEDULE

Proposed Principal Modifications of Conditions of the BT Licence

Removal of RPI+2% restriction (Condition 24A)

The proposed modification would remove the restriction on BT limiting any increase in the price it charges for the use and ordinary maintenance of an exchange line to 2% above the level of RPI. BT would be able to set its line rental charges at levels *determined by its commercial judgment, not regulation. The proposals would not* affect the obligation on BT under Condition 24D to protect vulnerable residential customers with low bills (see proposed modification to Condition 24D below). BT would still have to meet the overall RPI-7.5% price cap on its rental and call prices.

Where charges are imposed only as part of packages, the proposed modifications would require BT to specify as reference prices a single charge for each of residential exchange line rental and business exchange line rental, and a single charge for each different type of call (the same charge for both residential or business). Reference prices would have to be offered by BT to customers. It would be against these reference prices that BT's compliance with the overall price cap requirements (the Controlling Percentage) would be measured. Other combinations of rental and call charges offered by BT would contribute to BT's Discount Yield (see proposed modification to Condition 24C below).

Abolishing ADCs (Condition 13)

The Director proposes that these modifications should come into effect on or about 8 February 1996. The proposed modification would provide that, where the Director determines any interconnection charge under Condition 13, that charge would only cover a contribution towards BT's access deficit (the "Contribution") until 7 February 1996 and BT would not be able to require any operator to pay a Contribution in relation to any period commencing after then, notwithstanding any agreement or determination. The obligation on BT to provide a forecast of the Contribution in future years would be removed. (When Contributions are no longer payable there can be no determination that BT will pay an access deficit contribution to another operator under Condition 13.5B.2).

Redundant provisions allowing the Director to require BT to reduce the costs on which the access deficit is calculated if it fails to meet an efficiency standard for the years beginning 1 August 1991 and 1 August 1992 would be deleted.

Standard Services(Condition 16B)

The proposed modifications would delete certain redundant references to the Contribution.

Two tidying up modifications to the Interconnection and Accounting Separation licence modifications agreed at the end of March 1995 are proposed. One provides that where BT offers to provide a Standard Service at a New Charge (being below the charge determined for that Service), the Director may consent to back-dating of the New Charge. The second modification would enable BT to seek the Director's consent to the removal of a Service from the List of Standard Services, where for example that Service had ceased to be a Standard Service. Before giving consent in either case, the Director would have to consult with BT and Interested Parties.

Treatment of Packages (Condition 24C)

BT is *required to forecast annually* the *amount* of revenue it will forgo as a result of discounts it offers to its customers (the Discount Yield). The proposed modification would provide that, if BT proposes to amend a package, substitute a package or offer a new package of charges or there will be a material increase in the revenue forgone under the Residential Low User Scheme which would contribute to the calculation of BT's Discount Yield (see paragraph below), then BT would have to inform the Director, in writing, of any adjustment that should be made to its annual forecast of the Discount Yield as a result of those changes.

The modification would ensure that any linked *prices for exchange line and call* charges and *packages* involving the pre-payment of a fee would be included in the calculation of the Discount Yield (whether involving an increase or decrease in revenue forgone). An increase (above RPI) in the current level of revenue forgone by BT under the Residential Low User Scheme would contribute to BT's Discount Yield (see modification to Condition 24D below).

Further Provisions Relating to General Prices(Condition 24F)

For the purposes of Condition 24F only, the definition of a General Price would be *modified to encompass rental and call charges* covered in packages taken into account under Condition 24C in the calculation of the Discount Yield. Proposed new charges may therefore not fall below cost without the Director's consent. (Certain reductions in call charges could, as currently, lead to reductions in interconnection charges paid to BT by other operators under Condition 13.)

The proposed modifications delete certain redundant references to the Contribution.

Residential Low User Scheme (Condition 24D)

The *proposed modification would allow any increase* (above RPI) in the level of revenue forgone by BT as a result of the operation of the Scheme (as measured from 1 August 1995) to be brought into account for the purposes of calculating the Discount Yield. No such increase would count towards the price cap requirements under Condition 24A.

Residential Low User Scheme Guidelines under Condition 24D

The proposed modifications would provide protection for all eligible customers by requiring BT to ensure that their bills (*for the same call usage*) would not increase by more than RPI in any one year.

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THIS WEEK

Rome still stamped by Mussolini

DATELINE

Change is long overdue for Italy's postal service, writes **Robert Graham**

The main post office is an unmistakable landmark in every Italian city. Mussolini made sure that the post and telecommunications (PTT) operations had a grandiose central site. If there was none, old buildings were pulled down to make way for the indelible stamp of his neo-brutalist architecture.

These buildings are increasingly an anachronism. Telephones require no operators; telegrams (once essential) are no longer sent; and letter writing, never an Italian *forte*, is on the wane.

Meanwhile, the package and parcels business has been eroded by private operators, especially on routes between cities like Milan and Rome. Concessions have been awarded to private contractors to handle items like wedding telegrams.

Even at Christmas, with seasonal pressure on the service, employees seem more numerous than the public. The public seem mostly immigrant workers, not Italians.

Italians are not greatly smitten by the idea of sending Christmas cards, as shown by the difficulty of finding a shop in Rome that sells them. But the decline of the post office is not only a question of changing social habits. It is as much to do with the low esteem in which Italians hold their postal service. For years it has been the most inefficient of all the public services.

Everyone has their own tale of letters appearing with ancient post-marks.

There was even the case of a sack of letters turning up in a derelict railway siding, which led to an uproar when they were delivered. "We knew the letters were old but we are not allowed by law to destroy them. We got stick when we thought we were performing a courtesy by delivering them," a post ministry spokesman said last week.

The blame cannot be placed on foreign services. Often the worst delays occur locally. That is especially the case between the north and the south. No one marvels if a letter between the outskirts of Turin and Sicily takes three weeks.

In defence, the ministry says: "We often get blamed for slow mail, when people forget we are dependent upon the trains and aeroplanes which in Italy have been subjected to a lot of transport strikes."

Since September there have been at least 20 transport stoppages between air and rail.

The ministry has a target of delivering 85 per cent of ordinary mail anywhere in Italy within 72 hours, with the target falling to 48 hours within the same city.

In Europe, the delivery time is now meant to be within four days of consignment. Officially, one-third of mail meets this target. But many who depend upon intra-European mail find themselves in the unlucky two-thirds.

Outsiders may be surprised to learn there has been little pressure to improve the service. The usual Italian reaction when something (state-run) works badly is not to fight for change, but to create alternate systems that by-pass the existing ones. In the case of the post, this has created a vicious circle.

As a member of Censis, the social and economic research institute, put it: "The service is poorly used because the service is poor." People resort to the state post when time is no object.

Until three years ago, the ministry of posts seemed indifferent to the demands of the public. Successive ministers and their acolytes were more concerned with patronage. Rules and employment structures were geared to suit employees rather than the public.

The degree to which the public was disregarded has only started to come to light with a scandal surrounding the employment of fake invalids and the award of fraudulent invalid pensions. In September Rome magistrates began investigating a sample of 2,000 persons in their 30s awarded jobs in the PTT by being classified as invalids (therefore subject to special priorities for obtaining work).

They discovered some surprising facts. In the first six months of 1992 – the final days before Italy's post-war political establishment was discredited by corruption scandals – the then Sicilian-born posts minister took on 1,048 "invalids".

The sole criterion appeared to be geographical. More than 38 per cent of jobs were awarded in Sicily, 24 per cent in Camapana (around Naples), and the remainder in other areas of the south; only 12 per cent were awarded in Rome and the surrounding Lazio region.

This was patronage politics at its most generous. More detective work revealed many an invalid to be completely fit. Most had done military service, and one was discovered to be a champion gymnast running two physical training centres.

Looking further into family backgrounds, the magistrates have discovered that, by coincidence, the parents are often trades unionists attached to the PTT.

Yet amidst all this poor publicity, the ministry of posts is attempting to face the modern world of competition and develop a user-friendly service. Since January 1994, the postal service has begun to transform itself into a public company – a process due to be completed next year. Performance targets have been introduced and the axe on spending has been wielded silently but to considerable effect.

Since 1993, losses have been cut from a staggering L4,500bn (£1.76bn) to L338bn. Traditionally, more than 80 per cent of spending has been on personnel, so savings have come from freezing new employment. The number employed has fallen during the past three years by 50,000 to 180,000. The ministry prides itself on having achieved this without industrial unrest, but the workforce remains hugely cumbersome, concentrated in the south where there is less business and the service least efficient.

If real cuts are made and postal services tailored to the electronic age as promised, grandiose post office buildings in prime sites will become utterly obsolete.

FT GUIDE TO THE FED'S OPEN MARKET COMMITTEE

I understand the FOMC meets tomorrow. What is it?
It is a committee of governors and regional presidents of the Federal Reserve Board – the US central bank – which sets the level of short-term interest rates. As such, it is arguably the most powerful group of economic policymakers in the US, perhaps in the world.

Who is on the committee?
There are 12 voting members: the seven governors of the Fed's board (one seat is currently vacant) and five of the presidents of its 12 regional banks. The regional presidents serve on a rotating basis except for the president of the New York Fed, who is a permanent member. The committee is chaired by the Fed chairman, at present Alan Greenspan. By tradition, the vice-chairman is the president of the New York Fed, at present William McDonough.

What interest rate does the FOMC control?
It sets the level of the federal funds rate, which is the rate at which banks make short-term loans to each other. The fed funds rate serves as a benchmark for short-term borrowing costs generally. Banks' prime lending rates and the cost of consumer loans, for example, move up and down with the fed funds rate.

The FOMC does not directly control long-term interest rates, such as yields on government securities, which often have a more important impact on economic activity than short rates. However, movements in the fed funds rate do affect long-term rates by influencing the bond market's expectations of future growth and inflation.

What about the discount rate?
The discount rate – the rate at which the Fed makes short-term loans to commercial banks – is set by the Fed's seven governors in response to requests from the boards of the regional banks. Since little borrowing now occurs at the "discount window", the discount rate has more symbolic than practical significance. It is adjusted periodically in line with movements in the fed funds rate, which is the main policy variable.

How did the FOMC get its name?
The committee controls interest rates by engaging in "open market" operations – that is, purchases or sales of government securities. If the FOMC wants to lower interest rates it increases its purchases of securities, in the process pumping liquidity into the market. Open market operations are performed by the New York Fed which receives instructions from the FOMC after each meeting.

What criteria does the FOMC use in setting monetary policy?
There are two points to bear in mind. First, the FOMC is generally concerned about domestic economic prospects. Strength of the dollar is a source of concern, but currency considerations do not loom nearly as large as in Europe. Second, unlike many other central banks, the Fed is legally required to promote "maximum employment" as well as "stable prices". Recent Fed chairmen have tended to put greater priority on stable prices, arguing that low inflation is a precondition for sustained economic growth and high employment. But the FOMC is rarely slow to react to signs of serious weakness in the real economy.

How are decisions reached?
By the standards of many central banks, in a surprisingly rational fashion. The FOMC gathers every six weeks or so. Meetings typically begin with a review of open market and foreign exchange operations since the last meeting. Staff economists then present their latest economic projections. That is followed by a general discussion of the economic outlook. Staff then set out several monetary policy options which are reviewed in a round-table discussion. Finally, a monetary "directive" (instructions which tell the New York Fed whether to tighten or loosen policy, or leave it unchanged) is formulated and voted upon. Individual members sometimes dissent from the committee's decision, but the minutes generally show a high degree of consensus.

Is the FOMC really independent?
The Fed likes to say it is independent within, rather than of, government. The FOMC does not receive formal instructions from any other body or person. However, if the US president and treasury secretary persistently call for monetary policy adjustments, this may influence the FOMC's thinking. The Fed chairman (and occasionally other members) is frequently called to justify his actions before congressional committees.

Political influence is exerted mainly through the nominating process. The Fed's board is appointed by the president and confirmed by the senate. Governors serve 14-year terms. The Fed chairman and vice-chairman are named for four-year terms.

However, regional presidents are appointed by private-sector directors of the regional Fed banks, subject to final approval by the Fed's board in Washington. Congress has complained that regional presidents are "unaccountable." But in practice their private-sector orientation and emphasis on controlling inflation has led to sounder monetary policies than would be likely if all FOMC members were political appointees.

Is the FOMC secretive?
Yes, by the standards of most other arms of US government. The minutes of FOMC discussions are not released until six weeks after the meeting in question, and they do not reveal who said what. However, the FOMC is trying to pacify its critics. If it decides to move interest rates, it now issues a short statement immediately after a meeting. Full transcripts of FOMC meetings are also now available – with a five-year delay.

Michael Prowse

Minute attention: FOMC and Fed chairman Alan Greenspan

PEOPLE

Kodak develops a brighter outlook

The giant has left the dark room, write **Andrew Gowers and Tony Jackson**

During his five years running Motorola, the US electronics group, George Fisher achieved a formidable reputation as a manager and strategist. So when he quit late in 1993 to take on the chairmanship of photo giant Eastman Kodak, Wall Street's delight was mixed with puzzlement.

Why would a man who had won such plaudits and profits at a company at the forefront of America's digital revolution trade them for a business that, despite its proud history and powerful brand name, could best be described as demoralised and floundering?

Two years on, Fisher, a trim, thoughtful man with a straightforward manner, offers an answer that is starting to win over the doubters. The traditional photographic business, he says, is set for significant growth around the world for as long as he can foresee.

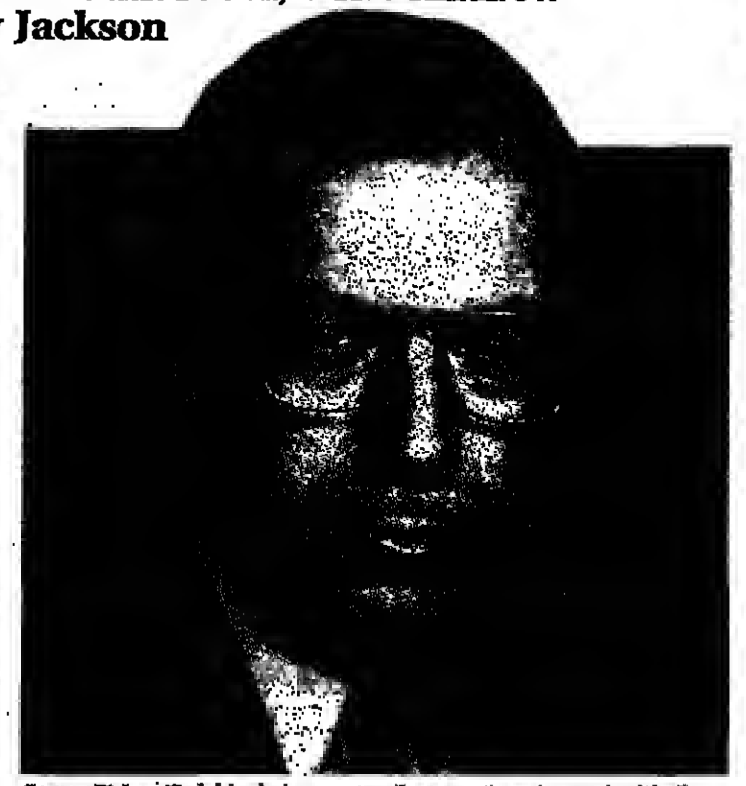
What is more, the industry is on the cusp of a technological transformation that will offer huge rewards to those companies in at the start. "When I came here," he says, "the mental set was that this is a slow-growth industry, and that the way you keep going is you keep cutting. The new mind set I think we've succeeded in establishing within the company is that there are tremendous growth opportunities; we have to go develop them . . . "

Fisher's approach has indeed been a departure. When he took over, Kodak was struggling after waves of cuts to maintain profits at the level of a decade before. Its traditional lines of silver halide film and photographic paper were stagnating, and seemed doomed to erosion by new technology which Kodak did not fully understand.

To the dismay of some in the investment community, Fisher – an engineering graduate who spent 10 years at Bell Telephone Laboratories before moving to Motorola – concluded early on that the answer was not more cuts.

Instead, he set about rapidly disposing of the pharmaceutical and consumer health businesses Kodak had bought during an ill-conceived diversification spree, and went on a trade and marketing offensive in Kodak's traditional product lines. He brought a new single mindedness to the company's efforts to exploit digital technologies. Digital imaging, he insisted, was not a threat to the traditional business of film and paper but an opportunity to expand it – for example, by using computer technology to edit, communicate and reproduce photos.

"Not too many years ago," Fisher says, "the company feared that digital was somehow going to wipe out film. We don't see that happening.



George Fisher: Kodak's chairman says there are "great opportunities"

Hence digital is now being embraced more as a way to grow not just the total enterprise but the film business as well."

Results are already perceptible. Sales of digital equipment are up between 50 and 100 per cent this year, depending on product line (well ahead of expectations, hut from a low base), and are set to grow at least as strongly next.

And Kodak is positioning itself for the information highway with alliances with companies such as Hewlett Packard, Apple and Microsoft. The idea is to establish its colour imaging and picture storage technologies as industry standards – for example, for transmission of pictures via the Internet.

Fisher's experience at Motorola – which was losing $50m-$100m a year in wireless communications 10 years ago hut went on to become an industry leader with a sparkling profit record – is central.

"I would say we are in imaging where Motorola was in wireless communications about 10 years ago," he says, pointing to the technology, the rapid growth in computing power, and the diminishing cost of memory and communications.

If the future looks promising, however, that does not mean the present is anything but difficult. Digital imaging is of marginal importance to the current business and will not make money until 1997 at the earliest.

Fisher's immediate preoccupations are: Kodak's costs, and problems selling in Japan. "I think our costs are way too high still. We have a lot of room to improve quality and our costs of production. Our overhead costs are also too high. In every one of our businesses I have areas where we're dissatisfied."

Then there is Japan, where Kodak's arch-rival Fuji commands about 70 per cent of the domestic market, thanks, the US company charges, to government-sanctioned anti-competitive practices which enable it to make large profits at home and buy market share overseas.

In his previous job, Fisher was vocal – and, to an extent, successful – in his demands that the US administration press Tokyo to open its market. Now, calling in aid truckloads of documents setting out his case, he is trying to repeat the trick.

So far there is little sign that Washington has the stomach for a fight, but Fisher is undaunted: "I've been involved in these issues for 20 years with Japan, and I've never had a single issue that's had such unanimous support [in Washington]."

And what of Fisher's own future? If he turns Kodak round during his current five-year contract, is there another challenge he might relish? "I don't have any plan beyond staying here until I retire. Five years is the minimum, and more likely I will stay here many years beyond that."

NAMES IN THE NEWS

Al Dunlap: another conquest over, plenty more to go

When the US tissue maker Kimberly-Clark completed its takeover of Scott Paper last Tuesday, it set a dangerous man on the loose, writes Tony Jackson in New York. Al Dunlap, ex-hatchet man for Sir James Goldsmith and now ex-chairman of Scott, is looking for the next company to get his teeth into.

In 20 months with Scott, Dunlap fired 70 per cent of its head office staff and 20 per cent of the shop floor. He also took on a company with a market value of $2.9bn and sold it for close to $10bn. Now, he says, he is unemployed for Christmas. With a $100m fee in his pocket, he will doubtless rub along.

He expects to be back very early in the New Year. His target will very likely be a US manufacturer, probably in consumer goods. He likes companies with hard assets, he says. When assets have legs, they can walk across the street.

Westinghouse, the struggling conglomerate, is the one that got away. Its impending $5.4bn takeover of CBS, the US TV network, takes it out of his preferred areas. "God forgive them," he says. "If you cannot run Westinghouse, what is the point of trying to run CBS instead?"

Dunlap says there are plenty of other companies out there waving for help. He will only be brought in as a last resort. But he says he has been talking to a lot of people, sizing up situations. When he makes his choice, he adds, buy all the shares you can: "Mortgage the farm. Sell your neighbour's house."

It is the kind of sales pitch you could only get in the US. The betting is that Wall Street will love it.

Four-horse race at Fiat

Last week's management changes at Fiat, Italy's biggest private company, have kept tongues wagging in Turin, Haig Simonian writes. Yet in spite of apparently exhaustive discussion, the impending elevation of Cesare Romiti, group managing director, to the chairman's post being vacated by Gianni Agnelli, and the former's replacement by Paolo Cantarella, who currently heads the core cars division, has left two questions unanswered.

The first is who will succeed Cantarella at Fiat Auto. There are three strong candidates, with a dark horse in the wings. Both Alessandro Barberis, currently Cantarella's number two at Fiat Auto, and Giovanni Battista Razelli, the head of its international operations, are obvious successors. The latest betting puts Razelli just ahead.

Also strongly placed is Giancarlo Boschetti, head of Fiat's Iveco commercial vehicles division.

Recently, however, Roberto Testore, who runs the Comau robotics subsidiary, has started making his way up the field. Comau is where Cantarella cut his teeth as a manager before moving to the cars side, creating a link between the two men.

Insiders add that Cantarella's passion for cars and close identification with Fiat's product-led recovery may mean he will retain a strong interest in the cars division. That could favour the chances of a relative outsider, like Testore, who is only in his early 40s, over more experienced heads.

The second enigma concerns Giorgio Garuzzo, 57, Fiat group's well-regarded chief operating officer, who has emerged as the big loser from the reshuffle.

As deputy to Romiti, he would have been the obvious successor as group managing director. Now that job has gone to Cantarella, Garuzzo looks set to stay where he is. Talk of past difficulties with Cantarella puts a question mark over how long he will wish to do so.

FILM/VIDEO

■ Do you spot something odd in the title of the Hollywood children's fantasy *The Indian In The Cupboard*? Exactly. Americans usually call cupboards closets. But maybe *The Indian In The Closet* sounded too much like an inter-racial gay movie and there is *definitely* none of that in this tale of boy meets toy. Nine-year-old Omri is given an Indian doll for his birthday and locks it in his bedroom cupboard, only for the thing to come alive at the drop of two eyelids. We are off into fresh dimensions. The film is deft and charming, but its box-office thunder has been stolen in the US by Disney's computer-animation feature *Toy Story*, in which a nursery comes alive.

■ Elsewhere you can have Jim Carrey in *Ace Ventura 2*, in which cinema's first $20m-a-movie comedian romps around Africa being rubber-faced and politically incorrect. Or you can have Iran's *The White Balloon*, which slayed Cannes this year with its tale of a little girl, a lost banknote and a balloonseller. Sweet; but festival audiences may have gone over the top in elevating it to non-European art hit of 1995.

Non-European art success of 1995: The White Balloon

■ The TV/VCR system has supplanted the fireplace, so start piling up those freshly chopped movies now. *Batman Forever* should be chopped enough for anyone: a widescreen noise-and-light riot reduced on video to demure drawing-room dimensions. But we do have Jim Carrey, as a campy chameleon-like Riddler.

■ Better still is Fred Schepisi's *Six Degrees Of Separation*, where a gifted cast camps up psychological chamber drama. John Cuare's Broadway play becomes a broad-brush comedy about deception, and social manners, played to the limit by Donald Sutherland.

Nigel Andrews

MANAGEMENT

Corporate governance in Britain is coming under ever closer scrutiny. Here we talk to the man who investigated boardroom pay and (below) present one view of the broader issues

Greenbury: the chairman speaks

Sir Richard Greenbury, chairman of Marks & Spencer, sits in his office above Baker Street and contemplates one of life's more irritating little ironies.

At the start of this year, when the Confederation of British Industry asked him to head an investigation into the controversial topic of directors' pay, Sir Richard and his fellow study group members were immediately branded by sections of the press as "fat cats," incapable of taking a firm stand on the size of the executive cream bowl.

As the year ends, the complaint is the very opposite: that the report be produced last July was so tough that a campaign is afoot by disgruntled executives to water down its provisions. Should not Sir Richard be doing more to prevent dilution?

Sir Richard, whose loathing for tha media runs as deep as his passionate support for Manchester United football club, says in an interview that this constant, unreasonable "slagging off" hy the press is why "I'll never do anything again, not in public life".

And he insists he is not acquiescing in dilution. Although the study group disbanded when its report was published, Sir Richard has continued discussing implementation, ever since emerging from hospital after a hip operation.

Still, the "watering down" accusations raise an important question: five months on from publication, what impact is the Greenbury committee report having on corporate Britain?

Enormous, seems to he the answer. Companies may not like Greenhury's call for mnch greater disclosure of boardroom pay, its clearer linkage to performance, and a strengthened role for a board remuneration committee, composed of non-executives. Bnt they are spanding large amounts on management and pay consultants to see bow to comply.

Sir Richard, who also sits on the boards of Lloyds Bank and drugs group Zeneca, is in no doubt: "Every husiness I'm involved with is currently spending an enormous amount of time collecting information and trying to review its entire remuneration policy.

"And if I talk to other husinessmen, I know that every one of them, their remuneration committees and their boards, are currently looking at a whole series of proposals... It's all taking place now."

The committee's "suggestions" for reform are being made compulsory by the stock exchange, which is in consultation about changes to its rule book. It is this process which is at the centre of any efforts to change Greenbury's recommendations.

Last month Geoff Lindey, chairman of the National Association of Pension Funds' investment committee and a leading Greenbury committee member, warned that "powerful voices" were trying to block implementation of key aspects of the report.

Areas of contention inclnde Greenbury's recommendation that shareholders approve all long-term incentive schemes – defined as those committing shareholders' funds for more than a year ahead. Draft stock exchange rules define long-term as over three years.

Companies are also uneasy about having to disclose the full cost of executives' pension benefits, which they fear could provoke a fresh storm of "fat cat" allegations. The precise formula for pension disclosure – in itself a complex and potentially controversial subject – is still being mulled over by the actuarial profession.

Sir Richard seems relatively sanguine about all this. He doubts that companies will try to get around the ohligation for shareholder approval of honuses hy playing tricks with the timing – for example, by running a scheme that lasts just under three years.

Companies, he says, should not underestimate the power of institutional shareholders, and their willingness to express their unhappiness. "It's the institutional shareholders that have introduced... much tougher criteria on executive share option schemes."

As for pensions, he insists no attempt is being made to water down the committee's proposals. The debate is abont the proper way to show the sums in a company's accounts.

He says an actuarial experiment, using different methods to calculate M&S directors' pensions entitlements, had produced some hizarre results. "I was horrified to find that two of my directors were minus," (ie benefit was negative).

Another problem is that a report and accounts normally declares that a company is an ongoing concern. But some argue that it cannot logically be so if all its directors are to retire at the end of the year, which is the assumption behind one pensions calculation method.

Sir Richard, however, makes plain that he is sympathetic to some objections raised against his report. "I think the level of personal disclosure [of remuneration] is offensive and I don't like it. I don't think there should be any reason why... people should know every penny I earn."

He reluctantly accepted full disclosure because this was the best way of "arming shareholders," providing them with the information they needed.

He agrees with the widely-aired complaint that greater details of pay will "produce security risks for any well-paid director, and if not the director himself then the family".

He says he personally wanted to see highly-paid City lawyers and bankers, as well as newspaper editors, included in the report, but he was told the priority was to look at corporate Britain.

"Why shouldn't lawyers in the City charging hundreds of pounds an hour... have to declare their salaries?... If the editor of the News of the World wants to know what I'm earning, then I would like to know what he'a earning."

How long will it take to measure the impact of the report? New stock exchange rules on greater pay disclosure – in the form of a report to shareholders hy the remuneration committee – will come into effect for company accounts covering the year to, or after, December 31.

Companies reporting on or after December 31 next year will have to state whether they have complied with Greenbury's best practice provisions relating to remuneration committees.

However, the timetable for implementation of the new pension disclosure rules has yet to be fixed. Says Sir Richard: "I don't see why pension disclosure shouldn't come through in some report and accounts at the end of '96, and certainly by '97. This is just a technical argument as to what'a the best way to tell it."

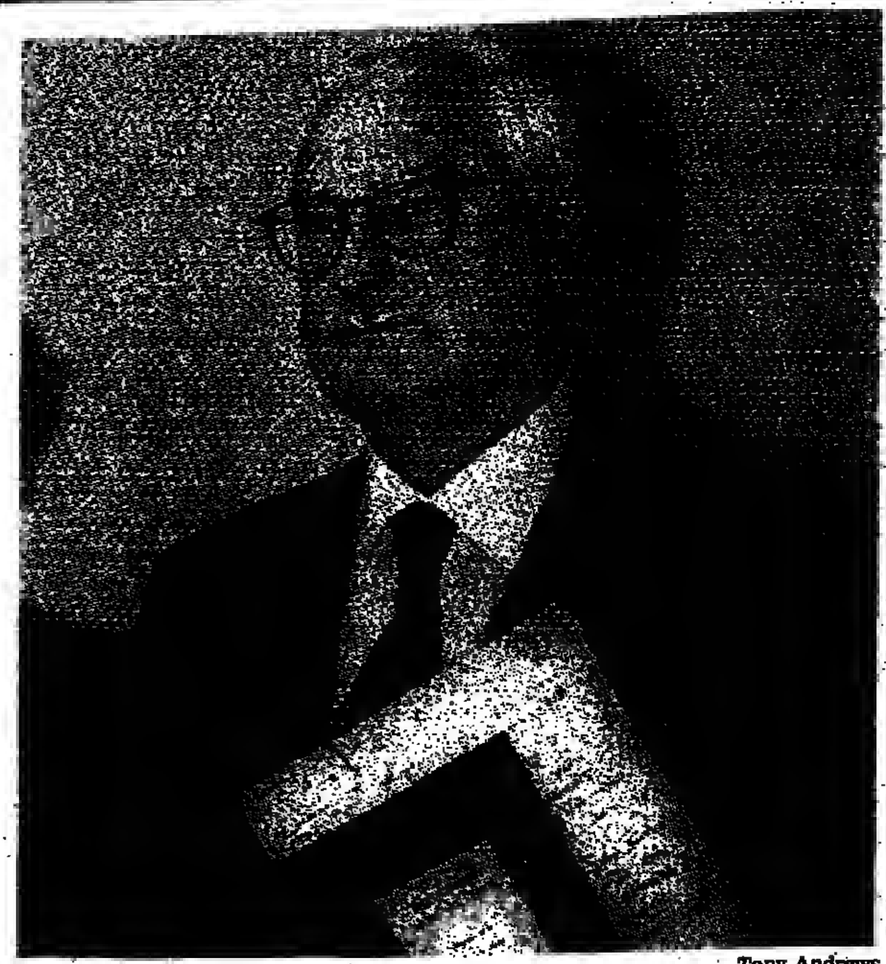
He believes that many companies will implement the new rules ahead of the required timetable, but adds that the real impact of tha Greenbury report will not become clear until the end of 1997, when companies have had a chance to rethink and change their initial approach.

He thinks that responsibility for following up the report, in two to three years' time, should lie with the government of the day and, he hopes, the "Cadbury mark II" committee whicb was established recently to cast a fresh eye over Britain's progress in corporate governance.

"So why can't we all wait until then? I don't think that's an unreasonable reqnest."

"If you can show me at the end of 1997 that nobody's listened, or nobody's done anything, well fine – give us a blasting. But for God's sake be patient."

Martin Dickson and William Lewis



Tony Andrews

Sir Richard Greenbury: "I think the level of personal disclosure is offensive"

Cadbury: owners must speak

Cadbury mark I, the committee on corporate governance chaired by Sir Adrian Cadbury, is over and we are about to be subjected to mark II. Some say it will not be a mark II but, in reality, that is wbat it will be.

This must be the moment for the corporate sector, and particularly that part of it which we are continually told must be the main engine of growth in the future – small- and medium-sized companies – to say what has bappened so far. It could also suggest a list of priorities for the next phase of improving corporate governance in the UK.

It is generally accepted that Cadbury mark I bad at least three objectives. First, to improve governance and thus limit scope for a repetition of the BCCI, Polly Peck and Maxwell affairs. Second, to preserve the unitary board in the UK, to avoid the two-tier structure used to Germany. Third, to involve the owners of UK companies, the sbareholders, more in the governance of their companies.

Cadhury mark I came up with four ways of moving towards achievement of these objectives:

- A division of power at tbe top of a company, usually by having a non-executive chairman alongside a CEO.
- The appointment of strong and independent non-executive directors to boards.
- The limitation of directors' contracts and full disclosure of their compensation packages via powerful remuneration committees, consisting ouly of Neds.
- The empowerment of audit committees, consisting largely of Neds.

Cadbury mark I has been quite successful, but tbere are caveats. Too many shareholders, principally the small ones, still find it virtually impossible to have any influence on a board whicb they feel is not performing properly.

There is a widespread suspicion that an unholy alliance exists between those who have been put in charge of our companies, the directors, and those who have the job of managing our savings – the institutional fund managers (often described inaccurately as the 'owners' of those same companies). They believe this alliance results in little or no real "ownership" activity on the part of the institutions. Some claim these institutions sell rather than toterfere, and that wbat interference does occur takes the form of a private chat with the chairman or CEO rather than something in which the other owners become involved as well.

Further, there is a feeling that Cadbury mark I is not going to belp owners and potential owners decide whether or not the executive management of a company is improving. Finally, there is concern that Cadbury seems to assume that governance is all about checking, controlling, and monitoring, rather than addressing the principal concern of a board: future strategy.

So does wbat we have been told so far about mark II give grounds for optimism? The remit is to renew the Cadbury code as it stands now, to renew the role of directors, executive and non-executive, to pursue any relevant matters arising from the Greenbury report, and to address the roles of shareholders and auditors.

Although most, if not all, of this will prove time-consuming, especially for Neds, it will be widely regarded as another step in the right direction.

But much will turn on just bow Sir Ronald Hampel, chairman of ICI and the "mark II" committee, and his team tackle the role of shareholders, ie the owners, something which was not addressed at all by mark I. The lack of emphasis on the role of the owner in corporate governance is surprising, because most economic historians wbo have covered the industrial revolution agree on the significance of the concept of ownership rights. Given all this, the question which arises is: who are the owners of UK plc, and what are they saying about the governance of property?

The short answer which most people would give to the first of these qnestions is: the institutions. Their meteoric rise since the 1950s to the point where they "own" between 60 per cent and 70 per cent of UK plc is well known. But the rise to near-total dominance by these professional investors, and the squeezing out of the small man, has not produced a more efficient capital market. As The Economist put it not long ago, "owner-capitalism has been replaced by "punter capitalism" and tbe share certificate has become little more than a betting slip." If this seems an extreme point of view, it is difficult to deny that we have precious few institutional investors these days wbo follow the fundamental principles of a Warren Buffett, and really do invest for the long term in businesses they believe they really understand.

As for the second question: What are the new 'owners' of UK plc saying about corporate governance? the answer is: "precions little". They have been forthcoming on directors' compensation packages, bnt they have not pontificated on Cadbury mark II, and they dislike being provoked on questions of strategy such as distributions and retentions, rates of return, tovestment and diversification, defences against takeover bids, returning cash to shareholders, and so on.

This reluctance to be drawn on leading strategic issues is strange, because over the years the switch of ownership from individuals to institutions and the growth of takeovers and acquisitions has resulted in the elevation of shareholders to a position of real power. But they seem reluctant to exercise that power. Can this be, many wonder, because too great a commitment to any one company reduces the fund manager's ability to walk away by selling?

So far the critique amounts to this: Cadbury, in its attempt to improve corporate governance in the UK, does not seem to be involving the owners (the institutions) sufficiently, and they in turn seem quite happy with this situation. But there is more to this question than just disqniet over a particnlar movement in one country. There have been signs for some time that perhaps all is not well with capitalism's principal vehicle for the execution of business: the company, and its owners. For example, the leveraged buy-out wave of the 1980s can be portrayed as the product of dissatisfaction with the existing form of corporate ownership, and a desire by active investors to return to a more direct and entrepreneurial form of ownership.

It has been widely suggested that the UK shonld emulate the so-called superior systems of Germany and Japan. At the same time the UK's solution to the prohlem – to enhance the power and prestige of the Neds – has not been universally accepted. Others argue that boards should be encouraged to think and act in the interests of all stakeholders in a company (tbe "inclusive approach"), rather than primarily of the sbareholders.

Most practical people feel that capitalism must be run, within the limits imposed by the law, by capitalists. Just because the owners of companies are not performing in every respect as one would wish, that is insufficient reason for discarding or ignoring them.

So, if the new form of corporate governance in the UK is to work, we need to involve all the owners – in effect, the institutions – more. Their reluctance to exercise their full power and become involved must, somehow, be overcome. Allen Sykes, former managing director of Consolidated Gold Fields, has suggested one way – that the 60 leading investment institutions in the UK become "relationship investors" in the top 100 companies hy appointing "shareholder directors" (who would be monitors of but would also enter into 5- to 7-year performance contracts with the executive directors).

This seems to be too revolutionary and wide-sweeping a change to the existing state of affairs to be acceptable to either owners or management, hut it does highlight the significant weakness in the system, namely the lack of any real contact between Neds and the institutions. There are several ways to improve the sitnation. Companies could be less short term in the way they frame directors' compensation packages, and in the way in which they sometimes dump investment managers of their own pension fnnds.

The reliance on the takeover as the ultimate constraint on management could be reduced by making the procedure more difficult. Also, the system which says that management can talk to institutional managers and analysts only about information which is already in the public domain could be relaxed. And Neds need to be involved as well as executives.

Will Cadbury mark II deal with the problem of the involvement of the owners of companies in corporate governance? If it does not, the end result – our new system of corporate governance – will be sadly distorted.

Alan Clements

The author is chairman of David S. Smith

A performance that can tip the balance

ADRIAN FURNHAM

The tip is the ultimate performance-related pay. It illustrates some of the problems of the meritocratic, equitable concept of reward related to output. Studies in the US have shown that the number and size of tips is a function of all sorts of things associated with the waiter. Each of the following factors has been demonstrated to affect tipping: wbether the waiter/waitress touches the customer; what they wear; whether she has flowers in her hair; is physically attractive; introduces him/herself hy name; squats at equal eye-height during the initial visit to the table; and, of course, visits the tahle more often.

But tips also vary according to characteristics of the customer. Tips are larger when customers are male, paying hy credit card and patronise the restaurant regularly.

Other factors to do with neither customer nor waiter make a difference, such as the weather.

It seems reasonable that good food and prompt service are associated with higher tips, even though the quality, preparation and speed of food delivery is not within the control of the waiter. One does not, it seems, act fairly and reward the server on the basis of service.

Tipping also depends upon factors beyond the waiter's control and almost at random. The mood of the cook, the price of fresh produce on the day and the avarice of the restaurant shareholders may affect the waiter's tip as much as his/her behaviour and attitude.

This illustrates clearly one problem with performance-related pay. Performance is not always under one's total control. Most people are inter-dependent with others whose performance also affects one's own. And geo-political economic factors often beyond one's ken, and certainly beyond one's control, can and do affect performance.

Despite their widespread use, many managers are sceptical about the usefulness of ability and personality tests in selection. Supply (of psychometric consultants) and demand (by human resource professionals trying to look sophisticated) has seen an impressive growth in the use of selection tests.

Some believe that the best predictor of the future is the past. Life-history or hiography is all you need. But what in our past is the best predictor of our potential?

One study looked at simple hiographical predictors of middle-aged, middle managers.

The list of factors thought to be predictive was long: which school they went to; position in the family; age of first mortgage; sport preferences, etc. In fact, this study found that for these middle-aged Britons the best predictor of managerial success was at what age they first travelled abroad: the younger the better. Why? When travel was more expensive and more difficult and when Europeans were somewhat more xenophobic, it tended to be the more adventurous, curious and well-off parents who took their children abroad. And it is possibly these characteristics associated with one's parents which lead adults later in life to be more successful. The question does not work for younger people who travel abroad routinely, but remains an interesting marker for those interested in selection.

Some years ago, a study tried to identify the single factor that most accurately predictad how long patients were kept in mental hospitals. The single best predictor turned out to be the thickness of tbe patient's file. The bigger the file, containing all sorts of official reports and assorted bric-a-hrac, the longer the patient remained locked up.

Is the opposite true of the best predictor of management success? I spoke to a top civil servant personnel officer, who said his section had attempted, using retrospective data, to find the best predictors of high flyers.

Some thought it was an Oxbridge conspiracy with a aelf-fulfilling prophecy. Others thought it might have something to do with the father's occupation or the school attended. Occasionally, an odd suggestion was thrown in, such as whether the person was religious, the age they first acquired a home computer, even the number of first names they had.

The best predictor turned out to be the thinness of the personnel file. The fewer the assorted bits of paper in the file, the better the individual was rated by the organisation.

So pause before going to personnel to sort out your problem – it may thicken your file and reduce your chances of success.

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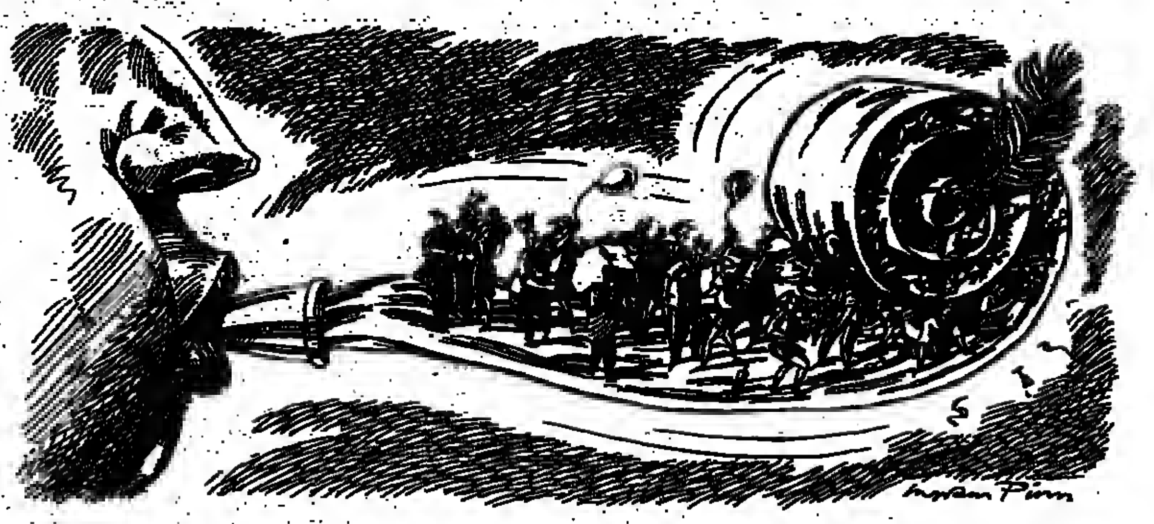
BUSINESS EDUCATION

Which business school throws the best Christmas party? Della Bradshaw assesses the competition

Blowing out the old year



When prospective students select their future business school, they study the length of the course and the school's international reputation. Much lower down the list of priorities is the quality of the food, how comfortable the beds are and the price of the beer in the bar.

Even less consideration is given to the calibre of the Christmas festivities. But if team spirit and student bonding are the watchwords of a good business course, then the organisation of the Christmas party could well prove an indicator of course spirit.

That being the case, here is an anecdotal run-down of some of the most ambitious, extensive and generally enjoyable business school Christmas celebrations.

As far as ambitious goes, the winners are undoubtedly the London Business School and Insead in Fontainebleau. There the students on the MBA courses organise their own theatrical revues.

At the London school the faculty is traditionally lampooned: academics "go along at their peril", according to a spokesperson. Walking straight into the lion's jaw this year was George Bain, principal of LBS, who was reportedly seen laughing during the course of the show.

By popular acclaim the star of the night was faculty member Andrew Sentance, who sang the Beatles' hit song "Yesterday" but with a rewritten text. His version bemoaned the difficulties of teaching MBA students.

The evening provided relief for the students who completed their final exam earlier that day, says Swiss first-year MBA student Marc Fischli, who was one of the main organisers of the event.

And it gave students a chance to get to know each other in a different environment. "Wa could talk for once without being stressed."

A spokesperson for Insead describes the Fontainebleau revue, combined with other seasonal revelries, as a "mass bonding session". Students ensure that they build up the personal networks they will need when they graduate from the school – one of the main reasons students choose international schools such as Insead.

Numerous parties are held in the large houses around Fontainebleau which the students occupy during term time. "Some houses become notorious for their parties," adds the spokesperson darkly.

Other business schools, such as Manchester, in the UK, or the Belgian school at Leuven, a town famous for its traditional Christmas market, enjoy a more conventional Christmas party. Even those for whom Christmas celebrations are not the convention – in Scotland, for example, where students might more naturally expect to celebrate the New Year with a traditional Hogmanay party – the festive spirit has been in evidence this year. At the Edinburgh University Management School students organised a party in a local hotel. With the last exam of the term already behind them, the idea was to bring together all the MBA students for one final gathering in 1995 – more than half the students return to their homes overseas for Christmas.

While European students roll out the barrel, their American counterparts are much more conservative. In the US, examinations are taken close to Christmas, and the massive size of classes can also inhibit festivities. At Harvard the class size of 600 means that students have been gathering in small groups of 80 or 90 to celebrate the holiday.

And at the Graduate School of Business in Stanford, California, the story is a similar one, although most of the 700 students gathered in the 70°F warmth just over a week ago for the traditional carol concert at the school.

For many students, the end of the Christmas terms means the end of the course. With final exams over celebrations are usually the order of the day. Or are they?

At IMD, the International Institute for Management Development in Lausanne, Switzerland, which specialises in short executive courses, the 80 or so MBA students finished their courses early in December and went home without celebrating Christmas at all.

Not so when the first Chicago executive MBA course in Barcelona concluded earlier this month. Students from that course went on holiday on Spain's Costa Brava. The hotel opened specially for 50 students. Andrew Milward, a Barcelona graduate and consultant from the Isle of Man, recalls happily: "It was three days of drinking champagne".

NEWS FROM CAMPUS

Directory comes to the executive rescue

For those confused by the multitude of executive courses, a book which offers profiles of more than 100 course providers, plus a full index of courses, could be the answer.

The directory, published by Kogan Page, enables readers to look up all the marketing courses in Madrid or all the design courses in Chicago.

The consulting editor of *International Executive Development Programmes* is Philip Sadler, former principal of Ashridge Management College, Herts, UK. He has commissioned a series of articles to complement the data.

Kogan Page: UK, (0)171 833 2754

Stanford wisdom for a British audience

A series of executive development videos produced by Stanford University is now available in Britain to the UK's Pal television format.

The 10 titles, which sell for £95 each, are distributed by Taylor Made Films (TMF) and include topics such as customer-focused companies and managing the workforce of the 1990s.

TMF: UK, (0)1264 335577

Community hat for commercial courses

Managers in companies which want to get more involved in the community will soon be able to go on a three-day course at Ashridge Management College, Herts. The first course in Managing Corporate Community Involvement will cover topics such as building networks and persuading others to participate.

Ashridge: UK, (0)1442 841175

President heralds the coming of age

The Brussels-based organisation which brings together management researchers from all over Europe, the European Institute for Advanced Studies in Management (Eiasm), has appointed a new President of the Board.

He is Anthony Hopwood, professor at the University of Oxford's School of Management Studies. Eiasm is celebrating its 21st anniversary next year.

Eiasm: Belgium, 2 511 9116

BUSINESS EDUCATION

BUSINESS TRAVEL

French strikes

French train and underground Metro services returned slowly to normal yesterday as a 24-day public sector strike started to weaken. In Paris, nine of 13 lines on the underground Metro were at least partly functioning. Across France, at least 25 per cent of trains were operating on main lines, *said a spokesman for* SNCF state railways.

Eurostar services to London via the Channel tunnel were also recovering.

Business class fares

The UK has the lowest business class air fares in Europe, followed by Spain and Italy, according to a study by American Express. Switzerland and Belgium have the highest fares, *writes Michael Skapinker*. The 11-country study showed that a 500-mile air journey would cost a British business class passenger Ecu0.53 (44p) per mile. The same length of journey would cost a Swiss passenger Ecu0.93 per mile. The per-mile costs of a 500-mile journey from the other countries studied were: Spain, Ecu0.62; Italy, Ecu0.64; Ireland, Ecu0.69; Sweden, Ecu0.75; Netherlands, Ecu0.76; France, Ecu0.79; Germany, Ecu0.81; Austria, Ecu0.86; and Belgium, Ecu0.88.

$40bn dream

George Koumal is a man with a $40bn dream, though potential investors will eye his plan with caution. Koumal, a mining consultant, wants to persuade investors to sink $40bn in a railway through some of the world's most inhospitable regions. He envisages building a tunnel under the Bering Strait, plus 4,600 miles of railway *linking Siberia to the lower* 48 states of the US.

He has even formed a company: Interhemispheric Bering Strait Tunnel and Railroad Group (IBSTRG).

"Comparisons with the Channel tunnel [between England and France] are inevitable," he says, "but [that] was a tunnel of convenience, an alternative-mode transport system between Europe and an offshore island, Great Britain. *Our* tunnel is an inter-continental rail link between Asia and America. It will open up vast areas of the earth's surface for the first time. It would establish access to more than 4m square miles of territory with tremendous natural resources.

"A cargo of grain, say, transported from Kansas City to Bombay would follow a significantly shorter distance via the Bering Strait, than by current sea lanes. Trains travel faster than ships and land-sea transfers would be unnecessary."

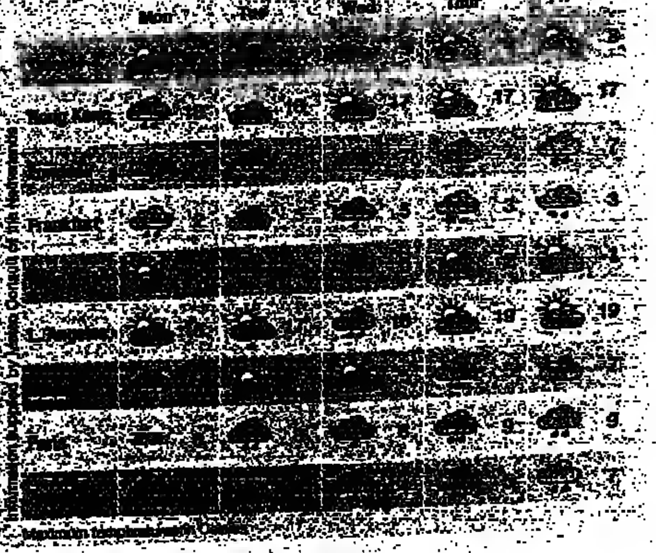
Koumal says that feasibility studies would cost about $50m, supplied by governments. The idea of a Bering Strait railway was first proposed in 1849. Koumal revived it in 1986 and formed IBSTRG, of which he is chairman. The 50-mile tunnel under the Bering Strait would cost about $10bn and use the Diomede Islands in the middle as a natural staging post.

Hong Kong border

Hong Kong and China are scrutinising the border that (temporarily) divides them. Officials had talks last week about the border, parts of which have become poorly defined and cause "ambiguities and unfair situations", said Hong Kong negotiator John Ashton. He said some of the markers laid down when the border was drawn a century ago have disappeared, while the two rivers that mark the frontier have changed course.

After China's 1997 takeover of the British colony, Hong Kong is expected to be a semi-autonomous zone of China.

Likely weather in the leading business centres



There's no such thing as a free lunch

US-style no-frills airlines with low fares are trying their luck in Europe, says Michael Skapinker

The cabin crew on the EasyJet flight from London's Lnton airport to Glasgow wear orange sweatshirts and serve no free food or drink – although they will *sell* you peanuts, beer or coffee.

Ryanair's Boeing 737 from Prestwick, south-west of Glasgow, to London's Stansted airport has a set of grinning teeth and a tartan scarf painted on it. The crew sell drinks – but no peanuts.

EasyJet, based in Luton, and Ryanair, headquartered in Dublin, are part of a small group of airlines attempting to bring a US aviation fashion to Europe: minimal passenger service in exchange lor cut-price lares. EasyJet began flying last month. Ryanair has been going for 10 years, although it only switched to being a "no-frills" carrier in the early 1990s.

The airlines model themselves on US carriers Southwest Airlines and ValuJet. The European Union air market is being liberalised, with airlines from one EU country already permitted to fly into another. In 1997 carriers from one EU country will be allowed to launch domestic services in another.

Bob Cotterill, head ol economic policy at the UK's Civil Aviation Authority, says there are airlines in several European countries attempting to undercut the fares of national carriers: Air Liberté in France, EuroBelgian in Belgium and Spanair in Spain.

But they face formidable obstacles. Europe's airports are more congested than those in the US and landing charges are higher. National carriers such as Air France, Iberia of Spain and Olympic Airlines of Greece have also been allowed to receive heavy subsidies from their governments.

It is in the British Isles, Europe's most *liberal* air market, *that cut*-price carriers are making most headway. Ryanair is now well established after experiencing financial difficulties over several years and it expects EasyJet to survive too.

"We never wrote off EasyJet," says Tim Jeans, Ryanair's commercial director. "They will be around for a very long time. They've done their homework."

While both carriers offer cheap fares, they have adopted different strategies which other European entrepreneurs who are thinking of emulating them will follow with interest.

EasyJet was lounded by Stelios Haji-Ioannou, the son of a Greek Cypriot shipping tycoon, who now owns his own shipping business. His new airline offers flights from Luton to Glasgow and Edinburgh for a lowest fare of £29 one-way. In the new year EasyJet will also begin flying from Luton to Aberdeen.

Haji-Ioannou says he has found several ways of cutting his operating costs so that he can keep fares low. Flying from Luton rather than Heathrow saves him £10 a passenger because landing charges and the cost of maintaining check-in desks are lower.

EasyJet has also decided not to sell its tickets through travel agents. This means it does not have to pay a 10 per cent commission on each ticket sold. EasyJet does not appear on computer reservation systems, which Haji-Ioannou says would have cost him £2.50 for each booking.

Instead, the airline takes all bookings on its own telephones. This has already caused some problems. When I telephoned EasyJet's reservations department earlier this month, I waited 5½ minutes for my call to be answered. "I know, it's terrible," Haji-Ioannou says. "We're the victims of our own success." He has doubled his reservations staff from 18 to 36.

EasyJat issues no tickets. Customers turn up at the airport, present their credit cards and are given a plastic boarding pass. Once on the aircraft, passengers sit where they want. They hand in their boarding passes, which are re-used.

Ryanair, by contrast, strongly believes in selling through travel agents, who account for 70 per cent of its bookings. It also appears on two computer reservations systems. Ryanair is larger than EasyJet, flying from London to Dublin, Cork, Knock and Prestwick and from Birmingham, Manchester, Liverpool and Prestwick to Dublin.

Jeans believes EasyJet is going to find it difficult to grow substantially while taking all its own bookings. Employing increasing numbers of receptionists is costly and there are no economies of scale, he says.

Ryanair still issues tickets, although it is investigating ways of going ticketless. Like EasyJet, it has also begun to let passengers sit where they like. The main advantage of this, it says, is that it has cut down on delays. Passengers tend to turn up at the departure gate on time if they *fear* they might not get a good seat.

Unlike EasyJet, Ryanair sells only drinks on board. Food creates a mess and means it takes longer to clean the aircraft. The drinks sales are important, however. Ryanair makes a pre-tax profit of only £1 a passenger, and all of that comes from on-board sales.

Without the option of putting up fares, the only way for EasyJet and Ryanair to increase profits is to expand. Both are planning to fly to continental Europe. Haji-Ioannou says he intends to stick to routes with flying times of less than two hours. Longer than that and passengers expect some service, he says.

Independent airlines such as British Midland and Air UK are not taking the incursion of the cut-price competitors lightly and have also been reducing their fares. Haji-Ioannou says, however, that British Airways appears to have decided it appeals to a different type of customer who demands more in-flight service.

There has been a whispering campaign against Haji-Ioannou. He presents an inviting target because he and his father face manslaughter charges in Italy. This follows the loss of the tanker *Haven* off Genoa in 1991 with the death of five crew members. Haji-Ioannou says the charges against him are baseless.

Cheaper Italian skies

It is difficult for an airline to stand out from the competition on a short flight which most passengers regard as a chore. But in starting operations between Milan's Linate airport and Rome, Air One, a new Italian airline, has two hig advantages: it is the first to challenge Alitalia's monopoly on its husiest route, and it is charging less.

Most passengers in the first week of the service seemed happy simply to be offered a cut-price alternative to the state carrier. The new airline operates six return flights daily, at a promotional one-way fare of L180,000 (£74) and a weekend fare of L135,000, against Alitalia's peak fare of L225,000. Air One's prices could come down still further in the New Year, the management says.

But if Air One intends to win passengers with its prices, it hopes to keep them with the warmth and quality of its welcome – "punctuality, courtesy and smiles" is how Giovanni Sebastiani, the former Alitalia manager who is now chief executive of Air One, puts it.

In terms of spaciousness and comfort there is no great difference between Air One and Alitalia. There does seem to be more leg-room in Air One's Boeing 737s, and *the airline is replacing some front*-row seats with a coat and luggage storage unit to avoid overflow from the overhead lockers on husy flights.

Passengers are clearly impressed by the new airline's much-vaunted in-flight service, which inclndes hot croissants and drinks at breakfast, sandwiches and spumante sparkling wine at lunchtime, in contrast to some no-frills operations snch as tha UK's EasyJet.

Alitalia passengers had grown used to receiving just a soft drink or coffee and a biscuit from unsmiling cabin crew.

So far, only the pioneers have started using Air One. In its first week on the Milan-Rome route, the airline reported 40 per cent capacity – not quite enough to break even – but said there is increasing demand for its morning and evening flights, where the price gap with Alitalia is widest.

If nothing else, the introduction *of competition on Europe's fifth* busiest air route has obliged Alitalia to sharpen its act.

Earlier this month the state carrier relaunched its Milan-Rome service under the name "Arcobaleno" (rainbow), promising cheaper fares and faster check-in, with flights leaving every 20 minutes at peak hours. Frequent flyers can now travel for L180,000 one-way and L135,000 at off-peak hours, if they buy an annual savings card. They may even find the cabin crew smile more than they used to.

Andrew Hill

MEDIA FUTURES

Yahoo! swiftly turns commercial

Tim Jackson

NINE months ago, a British-born venture capitalist in Silicon Valley named Mike Moritz brought his partners an unusual proposition. He wanted them to invest in a media company whose service helps people navigate their way around the World Wide Web.

Moritz's partners, who make up the firm of *Sequoia Capital* in Menlo Park, California, were already familiar with the Web. It's the part of the Internet used by surfers who point and click their way from one page of text or graphics *to another*, stored on computers all over the world. What shocked the partners was the fact that Yahoo!, the company in which Moritz wanted them to take a stake, gives away *its service* to customers for nothing.

That is not to be confused with the strategy of companies like Netscape or Qualcomm, the maker of the Eudora e-mail client package. These firms achieved a powerful position in their markets by allowing people to download software freely off the Net – but both firms sell *commercial* versions of their product too. No. This is a stranger beast.

In April 1994, two PhD students on Stanford University's electrical engineering course, David Filo and Jerry Yang, wanted to find a way of sharing their favourite sites on the Web. They wrote a program to build a hierarchical list sorted into categories and sub-categories.

Internet legend has it that Yahoo! is an acronym for Yet Another Hierarchical Officious Oracle. Literary-minded readers will recall that the yahoos were the loutish humanoids *in the kingdom of the* horses that Jonathan Swift's Gulliver visited on his final voyage. Filo and Yang, now aged 28 and 26, became the venture's chief Yahoos when their friends began to use it.

Thanks to the Net's amplification of word of mouth, Yahoo! was soon so popular that it became one of the biggest users of Stanford University's Internet connection. (At present, it is used by more than 800,000 people daily. Last week, the service recorded more than 10m hits, or *clicks of a user's mouse*, in a single 24-hour period).

The two chief Yahoos were deluged with offers from venture capitalists who saw commercial possibilities. In April this year, they gave in, took leave of absence from Stanford, and signed up with Moritz's firm. Last month, their new company brought in a second round of blue-chip investors. *Filo, Yang and Sequoia Capital* retain slightly less than one quarter of the equity each, and their 21 employees have the options that are part of the standard Silicon Valley incentive package.

So how does Yahoo! turn from hobby to business? By advertising. Moritz points out that network television and radio have done nicely by offering their programming to the public for free, and charging advertisers for appearing alongside; he adds that newspapers might do the same if not for the cost of heavy lifting involved in transporting trees *from* forests to doorsteps.

Today, with numerous Web sites carrying advertising banners, such a view seems common sense. Last spring, matters were less clear: the Net's culture, pundits insisted, was disdainful of advertising. Advertisers were not sure how many people were looking at Web pages.

Yahoo!'s *strategy has* been *to pull* in big-name advertisers to gain credibility. Its last published figures quoted $20,000 a month for each of 46 prime slots, with a further $1,000 per week for a smaller box on a page devoted to Web novelties. But with thousands of Yahoo! pages to choose from, and with a measurably growing audience, the potential is immense. The company has used its wealth to develop its service. It now includes a free news headlines service, better graphics, and a smarter user interface. It may follow a *competitor* in *using technology to show* users different advertisements depending on the information they are looking for. There is no shortage of talent for considering the choices: the company now has a small corps of professional managers, led by a Motorola veteran and a seasoned manager from Novell's consumer division.

It is an open question whether Yahoo is a *Yellow Pages, listing every site in the* book, or a giant set of personal picks. The service already editorialises by recommending some sites. But the Yellow Pages analogy seems apt. About 3,000 people a day submit sites for consideration, and the vast majority are added to the listings.

There is one exception. Yahoo! offers no service to the high proportion of Web users looking for pornography. Politically correct Californians that they are, the chief Yahoos do not offer moral reasons. They simply point out that illegal pornographic sites tend to come and go too quickly to be maintained on the list.

After less than a year of formal existence, the Yahoo! brand is one of the strongest on the Internet; provided it can *keep its systems* running smoothly while innovating to present information attractively, the company's customer base – and advertising revenue – seem likely to grow still further. The company is already making operating profits, and an initial public offering is likely early next year.

Months ago, I said that Netscape's shares would take at least a year to regain *the $74 they hit on flotation. With the* stock trading above $140 last week, I have learned my lesson. Readers who want a prediction of Yahoo!'s flotation price should look elsewhere.

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QUOTE UNQUOTE

Brick by digital brick, the information society is materialising before our eyes. Trillions are at stake. Great fortunes will be lost and made. In 1995, articles on this page quoted scores of expert views on the new-media revolution. Here is a selection.

Michael Katz, managing editor of Price Waterhouse's Technology Forecast 1995

"Finances won't be a constraint at all for this company."

Microsoft boss Bill Gates, discussing DreamWorks Interactive, a multimedia joint venture between Microsoft and DreamWorks SKG, the Hollywood studio founded in October 1994 by Steven Spielberg, David Geffen and Jeffrey Katzenberg. The venture is seen as a powerful new force in the swiftly growing realm of multimedia PC software. However, its potential for problems is "proportional to the size of the egos involved", in the view of one software industry exec.

"Travel will be possible to worlds unknown to the human race. Can you imagine you are a fish in an ocean? Or a butterfly, or an ant, or a caterpillar? Well, *those are easy*. But try to imagine you're an animal which lives in a macrocosm according to its own laws and rules. We suppose there will appear a generation of writers and playwrights who will create such unbelievable worlds. And you may want to try living there."

Stepan Pachikov, chairman of the Russian-US company ParaGraph, whose AlterEgo software has been described by Silicon Valley's Regis McKenna as "Alice in Wonderland stuff for the 21st century".

"Everyone from the *chairman of Procter & Gamble* to the humblest assistant product manager believes a marketing communications revolution is just around the corner. Maybe. But I am a sceptic. It seems to me that the over-zealous proponents of database marketing and interactive TV misunderstand, quite fundamentally, how the selling process works. Perhaps they have never enjoyed, or endured, the experience of being a salesman in a shop."

Winston Fletcher, chairman of the London-based Delaney Fletcher Bozell advertising agency, on the future of selling and salesmen.

"A digital time bomb is ticking away within the halls of corporate America. *Electronic records, unverifiable and easily* tampered with, can explode into staggering liabilities that undermine electronic commerce itself. The Digital Notary system defuses this threat by giving businesses the ability to safeguard and validate these records."

Scott Stornetta, chairman of Surety Technologies, whose Digital Notary system creates the digital equivalent of a paper audit trail. This helps users detect automatically if electronic documents have been tampered with or back-dated, and is based on patented cryptographic technology.

"The public will be able to engage in the nation's political life in a significant way."

Richard Clemmow, editor of the *BBC's live political programmes*, on the debut of Westminster On Line, broadcast at breakfast time when parliament is in session.

"There are as many jerks online as anywhere else."

Debra Littlejohn, a Dallas police sergeant, who met her husband, Thomas Shinder, an Arkansas doctor, *via America On Line*. She was describing Net relationships in general, not Shinder, whose credentials she checked on a police *database* before meeting – and marrying – him.

"If you don't have a front page – or pages – you don't have a mass audience. And that means you can't charge as much for advertising."

Michael Rogers, managing editor of **Newsweek InterActive, describing the need for electronic publications to present themselves and their contents with the panache of steam-age publications.**

"We believe that *Infotrade* will be the first service of its kind to integrate electronic online share trading and home banking and provide a real-time stream of pertinent financial information directly into the hands of private investors, levelling the playing field with the City dealer for the first time."

Peter Horne, group managing director of Apricot Computers, part of Mitsubishi Electric, on the introduction of Britain's first online home share dealing service.

"I have come here with some trepidation. It is easy to agree on principles, but less easy to implement them."

Robert Allen, chairman of AT&T, the largest US telecoms carrier, speaking privately on the eve of the G7 ministerial conference on the information superhighway in Brussels last February. Once it was over, business folk and politicians seemed to believe that the first faltering steps towards creating a global information infrastructure had been taken.

"There are profound long-term implications for *traditional retailers*, including supermarkets, because a 10-20 percentage point switch in the retail *market* from the *high* street to the home could eliminate most retailers' profit margins."

Goldman Sachs, warning steam-age retailers to get involved in interactive transactional electronic retailing – "broadband malls" – swiftly, or perish.

"It is *rare* for any mature industry to have the option to go into new technologies and to do so quite inexpensively."

Lou Zimmers, president of Zimmers Voice Publishing of Cincinnati, on the interactive future of newspapers.

"If we can provide comforting, informative, large-value *packages that* lots of people can enjoy, I think we can do well."

Robert Wright, chief executive of America's NBC network, maintaining that there is still a future for free, broadcast television as a refuge for viewers daunted by the cost of pay-TV.

"Financial EDI [electronic data interchange] is still a problem. What is holding it back is conservatism and the exorbitant charges which banks make for transactions."

Cranfield School of Management's Andy Bytheway, summarising criticism of the modest EDI role played by banks to date. The banks say criticism of the *cost of financial EDI* neglects the savings inherent in reduction of customers' workloads associated with data entry, authorisation and reconciliation of cheques.

"The Day Football Changed Forever."

Rupert Murdoch-owned tabloid in Australia on the magnate's plan to buy the sport of rugby league – in both *hemispheres – as part of his global* pay-TV machinations.

"If you think of a 9,600 baud modem as a 1-inch garden hose delivering information, *with ATM we can build an information* pipeline 27 ft in diameter."

John Patrick, vice-president of IBM Internet Applications, excited about asynchronous transfer mode (ATM) technology *that can increase* communications speeds to billions of bits per second.

"Advertisers, games companies and anyone else wanting to take part in the interactive revolution should orient themselves to the personal computer rather than the TV set."

Mary Modahl, technology analyst.

"The emergence of a globally networked society means...service industries are moving away from countries with rigid regulations to those with more flexible, multimedia-friendly law systems."

Kenichi Omae, former chairman of McKinsey in Japan, who believes Japan's bureaucracy is too slow to react properly to changes occurring as *a result of the media revolution*.

"My job is to get a fair share of the software applications market, and to me that's 100 per cent."

Microsoft executive.

"The sale is significant in that it is the first time a value has been placed on an intellectual property that comes from the Internet."

Tim O'Reilly, president of Global Network Navigator (GNN), a World Wide Web site, discussing GNN's sale, for about $11m, to America On Line. The transaction was described as the first takeover in cyberspace.

"Europe spends... not much more on education than the $250bn it spends just to support the unemployed. More should be spent on education...The information society opens up the prospect of new wealth and broader market participation. When markets grow, democracy grows. But if the transition is not correctly guided, the information society will be misshapen and will fuel new conflict and new forms of discrimination or cultural subordination."

Carlo De Benedetti, chairman of Olivetti.

"*No brand manager* in one country can make a decision about the internet without impinging on the territory of the same company's brand managers in other countries."

Ian Lawrence, technology director of **advertising agency Saatchi & Saatchi in London, on one of the problems facing companies as they ponder global electronic marketing. For example, *announcing on the Net that your prices* in the US (or elsewhere) are significantly lower than in other places could harm your customer relations worldwide.**

"Everybody knows the Internet has a lot of information. For now, *most of it is not* really related to business. It is cultural and academic discussion groups, pornography and politics. By eliminating these things not related to business, we make better use of resources at lower cost."

James Chu, chief of the Hong Kong-based China Internet Corporation, a subsidiary of Xinhua, China's official news agency, which is providing a special – ie, severely restricted – version of the Internet for Chinese businesses.

"New hardware and software *may* make people more efficient, but they almost inevitably make them less efficient first."

FT columnist Tim Jackson, describing the tiresomeness of getting to grips with Windows 95.

"America's Security First Network Bank *is the first financial* institution to conduct true online banking over the Internet...It claims to have created a 'virtual vault' for each customer account, using a 'trusted' computer operating system from Hewlett Packard, as well as encryption and user authentification software, and firewalls."

The FT's Louise Kehoe

"London wine merchant Berry Bros & Rudd, established in 1698, has become the oldest company in the world to set up on the Net (www.berry-bros.co.uk), *and its page is a model of online niche* marketing: a coloured text format that is pleasant to read and a straightforward product index and order form. Prices can be converted automatically from sterling to *US dollars and yen*."

The FT's Stephen McGookin (steve@mcgook.demon.co.uk) adding, in the same column of Cyber Sightings:

"Bad publicity about the availability of pornography on the Internet has obscured the medium's potential *for more sacred* purposes."

The FT's John Authers on the unveiling by British Ort, a large Jewish educational charity, of a service providing Barmitzvah lessons over the Internet.

"In 18 months to two years *you will be able to* book a hotel room or an aircraft seat simply by talking at your computer. You will not have to be a computer literate person to do it."

Hotel group Marriott's Peter Dennis, heralding a revolution in travel booking procedures.

"We wanted to be conservative about changing the law, except when there was strong consensus that the law needed changing."

Bruce Lehman, a US official, who chaired a Commerce Department working group that pondered the need to protect intellectual property from cyberpirates. Its long awaited white paper recommended only modest changes in America's strict copy*right laws*, and suggested leaving untouched current patent, trademark and trade secrets laws.

"The possibilities now being looked at envisage a *newspaper the size of the* Financial Times being downloaded by satellite to a personal computer in about five seconds...The only constraints relate to the speed at which the hard disc of a *PC can absorb information*."

The FT's Raymond Snoddy, describing developments and opportunities in the high-speed data delivery business.

"With this medium you don't have to water down the message as you do with others."

Jonathan Driver, brands publicity director at United Distillers, Guinness's spirits arm, on the benefits of direct contact with consumers via Web sites.

Media guru Nicholas Negroponte describing the target market for his book Being Digital to the FT's Andrew Adonis, aged 32.

"*English has* built up a critical mass, and it's unlikely that it will lose its position as the universal language of cyberspace any time soon. But we're *starting to see other languages gaining a* foothold."

Richard Villers, a multimedia analyst at International Data Corporation, on the use of languages other than English on the Internet. Many predict that non-English languages will gain ground in step with the commercialisation of cyberspace – producing cyberbabel.

"A recent system crash meant I lost a file of stored e-mails. *If you have con*tacted me over the past couple of weeks and I haven't replied, please get in touch again."

"If audiences are simply offered the choice to vote between faster and slower, or more or less harmony, the concert will become boring. It has to be much more sensitive than that, or it's just another video game."

MIT Media Lab researcher Tod Machover, who is planning to stage Brain Opera, a fully interactive musical event, at New York's Lincoln Center next July. Machover has created a set of digital hyperinstruments. A concert incorporating hyperinstruments is due to be held at London's Queen Elizabeth Hall next March 7, with a symposium, also on the South Bank, two days later.

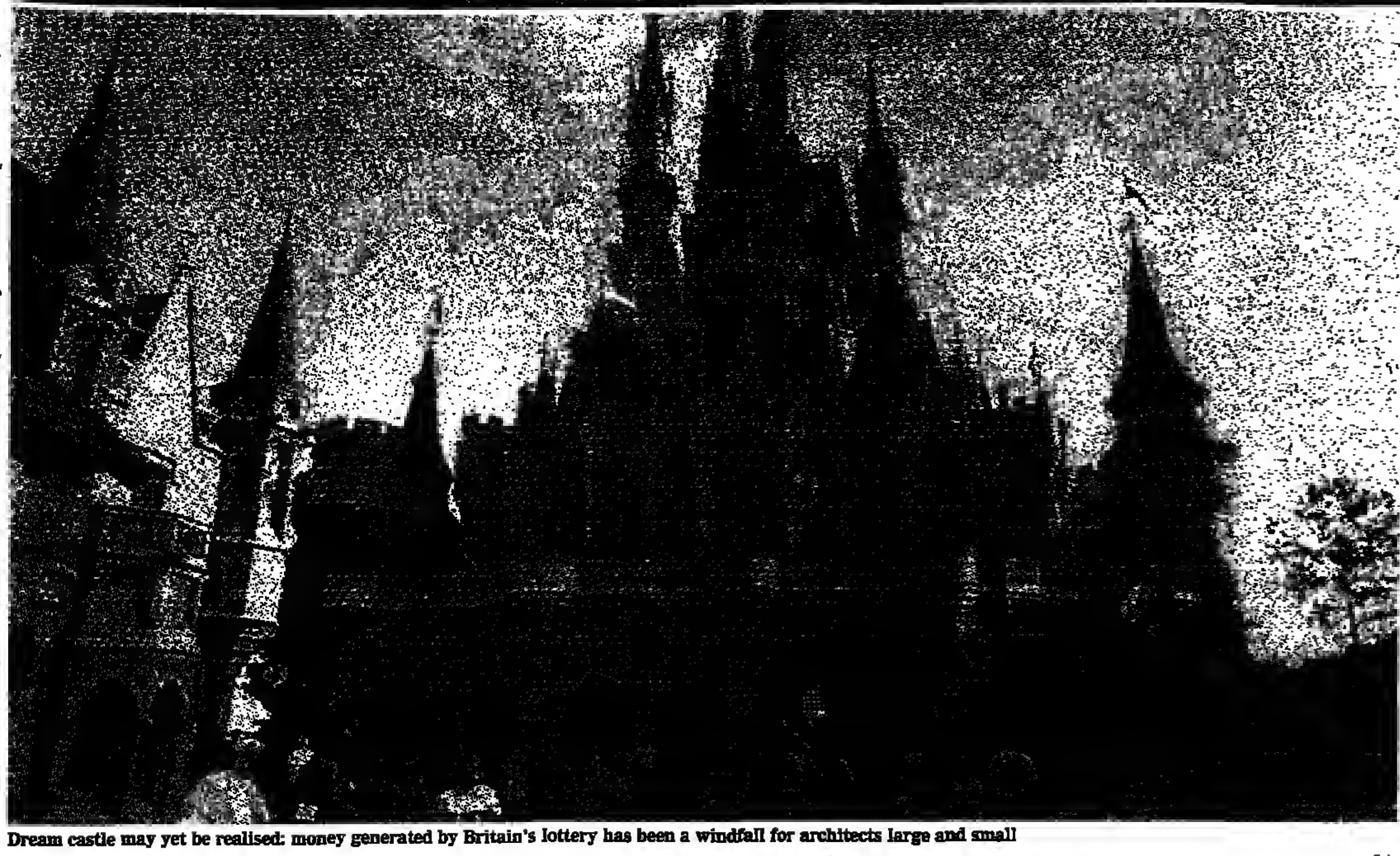
"In effect, some of the billions of dollars now spent annually on media advertising, and on the printing and postage of direct-mail advertising, will instead be divvied up among consumers who agree to watch or read ads sent directly to them as messages."

Bill Gates, predicting that advertisers will eventually pay people to read or watch their ads.

"Just hope he [Gates] knows what he is talking about."

The FT's Michael Thompson-Noel.

ARCHITECTURE / SPORT



Dream castle may yet be realised: money generated by Britain's lottery has been a windfall for architects large and small

Camelot grants profession's wish

Every morning Britain's architects wake up and think of Camelot, wondering whether – thanks to the national lottery – the chance is coming to build that "many-tower'd" city in England's oot-so-pleasant land. The be-knighted architects (there are more knights in the architectural profession than any other) gather at their round tables and start to draw their dreams. It seems incredible that suddenly there is mooey for buildings – and not ant beaps of offices, or fields full of butches for buman rabbits, but dreamlike pleasure domes to be filled with art, athletes, music and dance.

Has ao architectural bonaoza arrived? The Royal Institute of Britisb Architects did not have figures for me, but felt that many more architects were now being paid to do many more feasibility studies. Yet many architects I know are claiming that the consultants are bankrolling many lottery bids until tbey are certain of receiving grants. Consultancy fees are fast eating lottery millions. The four main distributors now announce their grants so regularly that they cease to be news. Yet the chairmen of these bodies are behaving like Franklin D Roosevelt in the 1930s – banding out the cash in ways that offer a new deal for sport, the arts and national beritage.

It hasn't sunk in what a buge difference this will make, not only to the profession but to national life. The problem is matching funding. The men wbo control the lottery cash do not give complete gifts – they bave limits, and mostly ask for 50 per cent in matching funding for all schemes (though sometimes less). Tbe millennium commission, for example, cannot give more than £50m to any ooe project. That leaves the largest proposed project, the millennium cycle route, to find matching funds of some £141m. The Royal Opera House has to find £100m, and the Tate Gallery £56m before it moves into its converted Bankside power station. Matched fund-giving like that cannot be managed by local authorities or private benefactors.

A few days ago the lottery sports fund wisely changed its criteria, raising the maximum available grant from 65 per cent to 90 per cent of overall cost and in some cases to the full 100 per cent. This will apply mainly to applications from urban areas of real need.

Surely lottery money should be banded out on as generous a basis as possible. After all, the money does not belong to the grant-making bodies. It is the people's, and it is bard to see wby it should not be used to fund the whole cost of new projects.

The chairman of the lottery's sports committee is to be congratulated for recognising immediate needs and acting upon them. The millennium commission, in contrast, has had to encourage the invention of ideas on which to spend lottery money, and to date grants have been made to a bunch of pioneering – indeed, experimental – projects.

However, architects have plenty to celebrate. Let us hope the search for matching funds will not mean years of delay. Projects to celebrate tha millennium should be the most exciting, and the Earth Centre near Doncaster promises to be the wildest. Three firms of architects have designed an enormous butterfly that has landed in a wood and will glow in the dark.

In turn, Portsmouth stands to benefit from a millennium project worth £86m, though no one seems sure who is to design the great beacon tower that will welcome people who sail into the harbour through a display of fountains. (There is a related bid for lottery beritage cash for the restoration and re-use of the historical dockyards).

Breathing walls and passive solar heating are two of the ideas for the Vision Centre at Manchester – a complex devoted to the spreading of the gospel of sustainability and green design principles. The scheme is the brainchild of an architectural gronp called Community Regeneration.

Architects are also hoping for a lot of promising work on smaller schemes, such as the nnmerous bids for community halls and for small sports balls. The way these new facilities are used also matters. The Sports Council has shown the way with its insistence that new sports facilities for schools are also available for community use. The heritage lottery fund could also take a lead by looking at the opening hours of local and national museums before giving money. The opening hours should be much more flexible.

As for the Arts Council, it should be doing more for architecture with its lottery cash. It tries to encourage and support only applications of real architectural quality, but architecture as an art receives only a tiny sum. Slightly more than £500,000 has gone to architecture so far, while much-snbsidised opera had received £28m up to November. Opera simply does not have the impact on people's lives that architecture does.

Colin Amery

Year's play blends wicked with sad

Gamesmanship hit highs and lows during 1995

SPORT

KEITH WHEATLEY

Readers unfortunate enough to share their lives with teenage children may have enough of the argot to know that life's events can be categorised, broadly, as "wicked" or "sad".

Anything exciting, novel or infuriating to those in authority can be classed as "wicked". "Sad" is more complex, being far more than a synonym for pathetic. It corresponds to what an earlier generation called "square" – solid, traditional, possessing a melancholy *gravitas*.

Looking back at the sports year it seems, to my perverse eye, that the most interesting incidents were not the championships won and records broken, but the vignettes of behaviour – "wicked" or "sad" – that put pepper in the stew.

The US golf tour was criticised in the American press when it was announced that Tom Kite would captain its Ryder Cup team at Valderrama in 1997. Kite, said the knockers, bed become the tour's all-time biggest earner (more than $9m) with a succession of seconds and thirds. He was not a winner.

However, the memory of a foggy morning et The Belfry during the 1989 Ryder Cup convinced me Kite was the man to recover the trophy for America. He stepped up to the tee in a foursomes match, partnering Curtis Strange against Seve Ballesteros and Jose-Maria Olazabal.

Ballesteros likes to psych up the opposition, which helped make him the world's greatest match-play opponent. On that Warwickshire morning, there was a little gamesmanship that the quiet, bespectacled Kite and the steely Strange seemed not to appreciate.

Kite struck savagely and out-drove Seve by 20 yards. "Remember the Alamo," he growled at his Spanish opponent, recalling the battle that freed Texas from the Hispanic yoke. The contest at Valderrama, with Ballesteros likely to be Europe's captain, should be a duel to savour.

In English soccer, Wimbledon Football Club's vision of a mass emigration to Dublin is in that club's finest tradition of iconoclasm. A team that gave the world Vinny Jones, named themselves the Crazy Gang and seem to view being homeless and fanless as glorious independence, are capable of anything.

Owner Sam Hammam managed to enrage the Premier League, the FA, Uefa and Fifa, probably the first time they have shared a unanimous viewpoint in years. The red herring of an alternative move to Cardiff, playing at Arms Park, provided a sub-plot that left one gasping. Yet the reasoning is faultless.

London has too much football whereas Ireland is desperate for it – not least after last week's drubbing by Holland, which excluded Ireland from Europa '96, the European soccer championship finals. Pleading to the European Court in the Jean-Marc Bosman freedom-of-contract case last week, Uefa argued that "football is a special financial entity". Quite. Since the game already ignores economics, morality and gravity, why should Wimbledon FC not ignore geography?

Last April, discussing tbe sale of the Los Angeles Rams to St Louis for $260m (£164m) I wrote: "Manchester United is now a leading international sports brand. Its players come from the global transfer market and the connection to the damp Lancashire city is mainly historical rather than contemporary." Old Trafford may be safe for e year or two, but Wimbledon are about to prove the general point.

Primo Nebiolo, international athletics supremo, gets the Teflon award for dodging sticky allegations. The latest revelation – by a man until recently e close Nebiolo aide – is that British athlete Sally Gunnell should have been the Internationel Amateur Athletics Federatioo's choice as Sportswoman of the Year in 1994, bot that voting numbers were adjusted to overcome presentational difficulties.

Christopher Winner – the IAAF's former press officer – making the claims, managed to leave his job before Nebiolo's mid-summer media problem with another female. In Gothenburg for the athletics world championships, he was interviewed on live TV by Britt-Marie Mattson, Sweden's answer to Barbara Walters.

Ruffled by queries about his tsarist management style, Nebiolo demanded to know how many men Britt-Marie had slept with. "In 23 years as a journalist I've interviewed dictators and other nuts, but I've never met anyooe who behaves like Nebiolo", she declared.

Angling doesn't often reach these columns, but one has to toast Yorkshire fisberman Andrew Jennings as one of the gutsiest and most self-confident sportsmen of the year. Last spring he entered the televised Fisb-o-Mania competition, the biggest in tbe north of England. Jennings was incensed wben local bookies gave him odds as unflattering as 20-1. So he staked the £500 be had won as a qualifying-round prize on himself to win. When his day's catch of 43 lb 2 oz gave him victory, Jennings banked a winner's cheque of £25,000, plns another £10,000 from the bookies. He'd even persuaded his brother into a £500 punt, giving the Jennings family a total haul of £45,000.

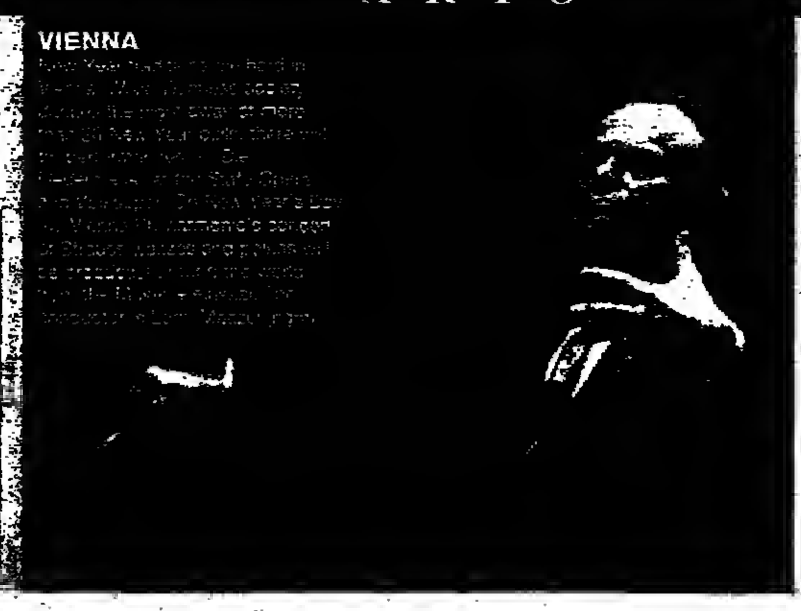
May the new year bring us more folk like Jennings and fewer like Nebiolo.

ARTS

OPENINGS

ANTWERP
Since it was first seen in London 10 years ago, Nicholas Hytner's ENO production of Handel's "Xerxes" has travelled far. After visits to Russia in 1990 and Chicago in September, it now comes to the Flanders Opera

VIENNA



FRANKFURT
Frankfurt has an extensive collection of Netherlandish art from the 15th and 16th centuries, but it is divided between a variety of museums. For the first time, the Städel is offering an overview of the collection, in a show opening on December 29. It traces the major changes which Netherlandish art underwent from the period of Jan van Eyck to the mass production of the early 16th century and the dawn of "the Golden Age".

LONDON
Two cult musicals return to London over the Christmas period, each for a limited period: "Privates on Parade" opens at the Greenwich Theatre tonight with Tony Slattery, and "Return to the Forbidden Planet" (left) at the Shaftesbury Theatre tomorrow.

PARIS
The Opéra Comique has made the unusual choice of a German work for its Christmas show – Otto Nicolai's comic opera "Die lustigen Weiber von Windsor". It forms part of a Falstaff cycle which will feature works by Verdi, Salieri and others. Günther von Kannen is Sir John in this new production opening on Boxing Day.

Questions of life and death

Alastair Macaulay on the lasting qualities of Tom Stoppard's play 'Rosencrantz and Guildenstern . . .'

No! I am not Prince Hamlet, nor was meant to be;/ Am an attendant lord, one that will do/ To swell a progress . . .

Thus speaks J. Alfred Prufrock in T.S.Eliot's 1917 poem; and 49 years later Tom Stoppard made his name as the wise guy of modern English theatre by turning those peripheral characters from *Hamlet*, Rosencrantz and Guildenstern, into the leading characters of a Prufrockian play. Clever idea, and *Rosencrantz and Guildenstern are Dead* remains a clever play; and funny; and intriguing. Now that the National Theatre has revived it in a new production, we can see that it is (at three hours, with two intervals) still longer than it needs to be; and that Stoppard has gone on to write yet better plays. Nonetheless, this play seems more assured of a place as a modern classic than anything else he has written.

In several respects, *Rosencrantz* looks forward to much of what Stoppard has written since. The occasionally-glimpsed Hamlet matters here in much the same way as the never-seen Lord Byron does in *Arcadia*; and Rosencrantz and Guildenstern, minor characters who are here shown centre-stage, prefigure the Henry Carr of *Travesties* who finds himself caught up with Tristan Tzara and James Joyce and Lenin.

As Stoppard was saying the other day on Radio 4, his original plan was to show Rosencrantz and Guildenstern arrive in Britain only to find it ruled by King Lear. The idea is so witty that you long to see it fleshed out; and in fact it is the very idea whereby Stoppard put Tzara and Joyce and Lenin together in *Travesties*. Even though the epistemological chat here – what do we know? what do we remember? – owes a vast amount to Beckett and especially to *Waiting for Godot*, much of it is *echt* Stoppard.

But, as its title warns you, *Rosencrantz and Guildenstern are Dead* is above all ontological. What will death be like? and what, for that matter, is life like? Are we always the centre of our own universe? Or is our life in fact shaped mainly by our dependency on other people and on chance? Are we distinct individuals? Or no more different from each other than sheep? The shadow that death casts on this play looks forward to later Stoppard plays right up to *Indian Ink*. But the beauty of this one is that Rosencrantz and Guildenstern spend most of their *lives* offstage, so to speak.

Yes, eventually they die; and dying means an end to living; but do you call this living? They are forever waiting in the wings of Prince Hamlet's life. Will death be so very different? This brilliant conceit gives Rosencrantz and Guildenstern their comedy in our eyes, and their pathos. Beneath its clever surface, there is a real existential quandary here. The protagonists live passive lives, on thin ice; and they wait to see what will happen to, if nothing else, the ice.

In Matthew Francis's production, Simon Russell Beale (Guildenstern) and Adrian Scarborough (Rosencrantz) look faintly like Tweedledum and Tweedledee, and almost as alike. Plump and beaky and bright-eyed both, they also look a bit like beige penguins. We can always tell the difference between them, and they are yet more distinct from each other in the way they talk. But the similarity is there, and is perfect.

Russell Beale dominates (Guildenstern is the more distinctive role). In his control of the play's pacing, its intelligence, its spontaneity, its comedy, he shows himself more clearly than ever to be one of our very finest actors. He does nothing to draw our attention to his technique, but there are wonderful details, such as the slight but telling pauses he injects into one of his Act Two speeches to the Player. And then the gathering weight he gives to the speech about "You can't act death": in which he tells the Player that death is just "a disappearance gathering weight as it goes on, until, finally, it is heavy with death". Superb.

Scarborough, in the harder and more passive role, tends too often to speak his lines as if (as a friend said) in inverted commas. Nonetheless, he very well catches Rosencrantz's helpless condition, comically poised on the brink of utter ignorance and utter depersonalisation and utter oblivion.

Alan Howard is, I suppose, luxury casting as the Player. His high-technique actorliness of voice is so pronounced that the National, astutely, seems to cast him only now in artificial or crazy roles. Few actors are more compelling or more peculiar; at times he employs a quivery brassy high vibrato that reminds me of Ethel Merman, at times he is Donald Wolfit redivivus, at times he is the Ancient Mariner to the life. In other words, he too often distracts me from the play.

Francis's direction keeps most aspects of the play very fresh. But Lez Brotherston – usually an excellent designer – has provided several layers of partly translucent decor that surround the play with more fuss than it needs. One staircase got stuck in Act One; a wall wobbled badly in Act Two; and I was dismayed to keep seeing a technician in Act Three. Nor do the deaths of the play's title make their proper impact when preceded by the squeaky sound spillage from the intercom worn by the semi-visible technician hovering to render Guildenstern perpetually invisible.

In repertory at the National Theatre, South Bank, SE1.

Alastair Muir

Luxury casting: Adrian Scarborough, Alan Howard and Simon Russell Beale in Matthew Francis's new production at the National Theatre

Christmas Theatre

From Scrooge to Sondheim – and more

The most celebrated Christmas show of the 1990s, Alan Bennett's National Theatre version of *The Wind in the Willows*, has at last transferred to the West End this year – or, to be precise, to the Old Vic. The production has been revised somewhat since Nicholas Hytner first staged it at the Olivier Theatre in 1990, but it remains a thoroughly Bennettian study of Englishness and it retains its spectacular scenery.

Meanwhile the Royal Shakespeare Company revives its 1994 production of *A Christmas Carol* – on which opinions last year were severely divided – at the Barbican Theatre. (Eight performances a week until January 13.) The stage adaptation of this Dickens classic is by John Mortimer, the staging is by Ian Judge, and Clive Francis plays Scrooge.

But these are revivals. New seasonal fare includes *The Jungle Book* at the Young Vic, directed by Tim Supple with music by Adrian Lee; and *Hansel and Gretel* at the Lyric Hammersmith, adapted by Michael Dalton, staged by Red Shift and Pop-Up companies.

For those who require "non-Christmas" entertainment over the Christmas season, there are several important London openings during December. The Donmar Warehouse's very successful (standing room only) recent staging of Tennessee Williams's *The Glass Menagerie* has transferred to the Comedy Theatre. Claire Skinner's performance is among the most memorable before the London public, and Zoe Wanamaker does good if not great work as her mother.

Meanwhile, back at the Warehouse, Mendes is at work on the Stephen Sondheim musical *Company*, which opened last week, a sequel to his 1992 staging of Sondheim's *Assassins* and an interesting companion or alternative to the National Theatre's current staging of Sondheim's *A Little Night Music*. The cast includes Sheila Gish and Adrian Lester.

At the National Theatre, one of the most celebrated plays of the modern era, Tom Stoppard's 1966 *Rosencrantz and Guildenstern are Dead*, is revived in a new production by Matthew Francis on the Lyttelton stage (reviewed, left). Francis, the artistic director of the Greenwich Theatre, is making his National debut. Simon Russell Beale, at the end of a year in which he has played Ferdinand in *The Duchess of Malfi* and Mosca in *Volpone*, acts Guildenstern, and Adrian Scarborough acts Rosencrantz.

At the Pit, the Royal Shakespeare Company stages Lord Byron's *Cain*, retelling the tale of Cain and Abel. John Carlisle plays Lucifer, and the staging is by John Barton. The 1821 play – not written for the stage – is an interesting choice: a 19th-century Old Testament counterpart to the same theatre's recent staging of Dennis Potter's New Testament *Son of Man*. (It will be reviewed in the Financial Times this week.)

A new play about poker, *According to Hoyle* by William Gaminara, opened at the Hampstead Theatre on December 11. Robert Lefevre directs. At the Almeida Theatre, *The Tower* is Charles Wood's version of Alexandre Dumas's *Le Tour de Nesle*. The production brings Sinead Cusack back to the London stage, with Adrian Dunbar playing opposite her.

At the Greenwich Theatre, opening tonight, Peter Nichols's *Privates on Parade* is revived by Paul Clayton, with Tony Slattery and Paul Slack, directed by Paul Clayton.

Sondheim apart, London has an unusually varied clutch of musicals on display et present: the recent additions to the list include *Prisoner Cell Block H* at the Queen's Theatre, *Jolson* at the Victoria, and *Mack and Mabel* at the Piccadilly Theatre. On December 19, the Shaftesbury Theatre sees the return of *Return to the Forbidden Planet* – for four weeks only.

For those in need of comedy, the new *Shakespeare Revue* at the Vaudeville Theatre should add several items to the any lover of comedy's collection of vintage material. But the great play *about* comedy is Terry Johnson's *Dead Funny* at the Savoy Theatre: not to be missed. (Meanwhile, the same playwright's 1993 *Hysteria* is revived at the Duke of York's Theatre, directed by Phyllida Lloyd as part of the Royal Court Classics season.)

And vintage comedy of another ilk is the hilarious 18th-century *Wild Oats*, in repertory at the Lyttelton Theatre, directed by Jeremy Sams and beautifully cast down to the smallest roles.

A.M.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Robert Schumann Ensemble: perform works by J.S. Bach, Schubert and Fauré; 8.15pm; Dec 19
DANCE
Het Muziektheater
Tel: 31-20-5518117
● Romeo and Juliette: a choreography by Rudi van Dantzig to music by Prokofiev performed by Het Nationale Ballet with Het Nederlands Balletorkest; 8pm; Dec 20 (2pm), 21, 23, 24 (2pm)

■ ATLANTA

EXHIBITION
High Museum of Art
Tel: 1-404-8989284
● Fine art at the Cotton States and International Exposition Atlanta 1895: an exhibition commemorating the centennial of the Cotton States and the International Exposition held in Atlanta in 1895. It offers an overview of the fair and a focused examination of the fine arts presentation. Exhibits include works by Mary Cassatt, Winslow Homer and James McNeill Whistler; to Dec 31

■ BERLIN

CONCERT
Deutsche Oper Berlin
Tel: 49-30-3438401
● The New London Consort: with conductor Philip Pickett perform a Christmas concert of ancient music; 7pm; Dec 19
Konzerthaus
Tel: 49-30-203092100/01
● Weihnachtsoratorium: by J.S. Bach. Conducted by Peter Schreier and performed by the Staatsopernchor and Staatskapelle Berlin. Soloists include soprano Carola Höhn, alto Rosemarie Lang, tenor John Mark Ainsley and bass Geert Smits; 8pm; Dec 21, 23 (4pm)

■ BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-2123333
● Das Lied von der Erde: by Mahler. Performed by the City of Birmingham Symphony Orchestra with conductor Sir Simon Rattle, tenor John Mitchinson and baritone Thomas Hampson; 7.30pm; Dec 19

■ BONN

OPERA & OPERETTA
Oper der Stadt Bonn
Tel: 49-228-7281
● Hänsel und Gretel: by Humperdinck. Conducted by Shuja [illegible], performed by the Oper der Stadt Bonn. Soloists include Michael Volle, Birgit Beer and Thomas Mohr; 8pm; Dec 19, 21, 25 (6pm); Jan 1 (6pm)

■ COLOGNE

DANCE
Opernhaus Tel: 49-221-2218240
● Goya: a choreography by Jochen Ulrich to music by Bo Verspaendonck, performed by the Ballett Köln; 7.30pm; Dec 20

■ FLORENCE

OPERA & OPERETTA
Teatro Comunale
Tel: 39-55-211158
● Un Ballo in Maschera: by Verdi. Conducted by Semyon Bychkov, directed by Alberto Fassini, performed by the Orchestra e Coro del Maggio Musicale Florentino; 8.30pm; Dec 19, 20, 21

■ FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-2998820
● Inoue Yu-Ichi: part of a tripartite exhibition of the work of this Japanese artist. The paintings and drawings on display show the bombardments of Hiroshima. The artist's work is also on display in the Kunsthandwerkmuseum and Karmeliterkloster in Frankfurt; from Dec 19 to Feb 11

■ HAMBURG

DANCE
Hamburgische Staatsoper
Tel: 49-40-351721
● Odyssee: a choreography by John Neumeier to music by George Couroupos, performed by the Ballett Hamburg; 7.30pm; Dec 19, 20

■ HELSINKI

CONCERT
Finlandia-talo - Finlandia Hall
Tel: 358-0-40241
● Helsinki Filharmonia: with conductor Okko Kamu and pianist Paavali Jumppanen perform works by Tchaikovsky and Dvorák; 7pm; Dec 19

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Suk Kammerorchester Prag: with violinists J. Suk and P. Macesek perform works by Vivaldi, Pergolesi, Richter and Dvorák; 8pm; Dec 19

■ LONDON

AUCTION
Sotheby's Tel: 44-171-4938080
● English Literature & History: the auction includes a series of letters from Lord and Lady Byron, and letters from their friends; 10.30am & 2.30pm; Dec 18
CONCERT
Royal Albert Hall
Tel: 44-171-5823861
● Christmas Carol Concert: the Royal Choral Society, the London Concert Orchestra and the Fanfare Trumpeters of the Band of the Irish Guards conducted by Richard Cooke, with organist John Birch, perform Christmas classics; 7.30pm; Dec 19
St. John's, Smith Square
Tel: 44-171-2221061
● The Sixteen: with conductor Harry Christophers and harpist Sioned Williams perform Britten's "A Ceremony of Carols" and Respighi's "Lauda per la Navtivita del Signore"; 7.30pm; Dec 19
THEATRE
Olivier Theatre Tel: 44-171-9282252
● Volpone: by Ben Jonson. Directed by Matthew Warchus. The cast includes Michael Gambon; 7.15pm; Dec 19, 20 (2pm)

■ MADRID

CONCERT
Auditorio Nacional de Música
Tel: 34-1-3370100
● Orquesta Sinfónica de Madrid: with conductor Francisco de Gálvez and pianist Paul Badura-Skoda perform Beethoven's "Die Ruinen von Athen" and "Symphony No.3"; 7.30pm; Dec 19

■ NEW YORK

OPERA & OPERETTA
Metropolitan Opera House
Tel: 1-212-362-6000
● Die Fledermaus: by J. Strauss. Conducted by Hermann Michael and performed by the Metropolitan Opera. Soloists include Nancy Gustafson, Janet Williams, Jochen Kowalski and Neil Rosenshein; 8pm; Dec 20, 23

■ PARIS

THEATRE
Comédie Française, Salle Richelieu Tel: 33-1 40 15 00 15
● Phèdre: by Jean Racine. Directed by Anne Delbée, costumes designed by Christian Lacroix. Starring Catherine Samie, François Beaulieu and Martine Chevallier; 8.30pm; Dec 19, 25

■ STUTTGART

DANCE
Staatstheater Stuttgart
Tel: 49-711-221795
● Stuttgart Ballett: perform the choreographies "Metaforen" by Hans van Manen, "The Time Will" by Stephan Thoss and "Orfeas" by Roberto de Oliveira; 7.30pm; Dec 19

■ VIENNA

OPERA & OPERETTA
Wiener Staatsoper
Tel: 43-1-514442960
● Jérusalem: by Verdi. Conducted by Zubin Mehta and performed by the Wiener Staatsoper. Soloists include José Carreras, Eliane Coelho, Samuel Ramey and Davide Damiani; 7pm; Dec 19

■ WASHINGTON

CONCERT
Concert Hall Tel: 1-202-467 4600
● Oratorio Society of Washington: with conductor Robert Shafer perform choral Christmas music. An annual event; 7pm; Dec 19, 22 (8.30pm), 23

■ ZURICH

OPERA & OPERETTA
Opernhaus Zürich
Tel: 41-1-268 6666
● Simon Boccanegra: by Verdi. Conducted by Nello Santi and performed by the Oper Zürich; 7.30pm; Dec 19, 21

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Financial Times Business Tonight

Michael Prowse • America

No hurry on rates

The case for lower US interest rates looks persuasive – but, though growth has slowed, there are grounds for caution

Wall Street is salivating at the prospect of interest rate cuts. Bond investors are convinced the Federal Reserve will follow European central banks and cut short-term rates by a quarter or half point, if not this week then in January.

By early summer next year, many financial economists believe a substantial easing of monetary policy will have occurred. The federal funds rate – the cost of short-term loans for banks – is seen as falling as low as 4.5 per cent, against 5.75 per cent today.

Proponents of rate cuts disagree on the timing of Fed action. Some think the Fed will demonstrate its independence of the political process at its meeting tomorrow and announce a decisive half point cut in rates. Others say it would be reluctant to move while parts of the federal government are closed and before the warring parties have reached a final agreement to balance the budget. On this view, the Fed might opt for a monetary directive biased toward easing, giving Mr Alan Greenspan, the Fed chairman, discretion to cut rates at a propitious moment. The bottom line, however, is that rates are coming down – and soon.

As the chart illustrates, yields on government securities of all maturities have fallen steeply, not just since November last year (when investors still feared the economy was overheating) but since early July when the Fed announced its first, tentative cut in short-term rates to 5.75 per cent. In an unusual inversion of the yield curve, yields on Treasuries of maturities up to 10 years are now below the federal funds rate. This is the clearest possible signal that financial markets believe Fed policy is too restrictive.

The theoretical case for a substantial easing rests largely on the apparent absence of the upward pressure on inflation typically experienced in the late stages of a business cycle. As recently as July, Fed governors and regional presidents predicted the consumer price index would rise by 3-3.5 per cent this year. Yet the data have been consistently better than expected: consumer prices were unchanged in November and up 2.6 per cent on an annual basis. In the three months to November, consumer prices rose at an annualised rate of 1.8 per cent. For the bond market, which buys the argument thet the CPI substantially overstates the true inflation rate, this is tantamount to "price stability".

Other indicators provide corroborating evidence. Commodity and wholesale prices are behaving themselves. Labour markets are astonishingly quiescent: the broadest measure of employment costs (which includes fringe benefits) is growing at its slowest rate in decades.

Nobody has a fully convincing explanation of this treod, but the "globalisation" of economic activity is widely seen as having permanently shifted power from workers to shareholders. US employees dare not complain, the argument runs, because management now has the option of shifting production to somewhere like Thailand or Mexico, where labour costs are far lower.

The second leg of the argument for rate cuts is that economic growth has slowed sharply. Few economists fear a full-blown recession but, as they run through the various sectors, many can find little evidence of vitality. The consumer is heavily indebted; manufacturers are still burdened by excessive inventories; and export prospects are threatened by the disappointing performance of both the Japanese and European economies.

If inflation had risen to 3.5 per cent, say proponents of rate cuts, a federal funds rate of 5.75 per cent would represent a real rate of just over 2 per cent. This could just about be construed as a "neutral" monetary policy. But with inflation, even as measured by the unreliable CPI, running at only about 2.75 per cent, the real fed funds rate is now close to 3 per cent.

This is far too restrictive, claim many Wall Street economists, given that most sectors of the economy are either sluggish or in decline. Hence the prediction (embodied in the yield curve) that the Fed will cut rates by a percentage point or more in the next few months.

Put this way the case for easing policy certainly looks persuasive. Yet there are grounds for csution.

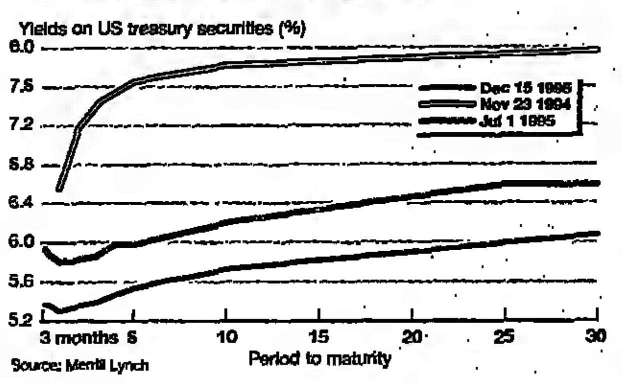
In the first place, the US economy is nothing like as weak as those of Europe and Japan. The jobless rate is 5.6 per cent, suggesting the economy is operating at, or perhaps slightly above, its potential. Economic growth has certainly decelerated, but that was the goal of last year's monetary tightening: you cannot have a "soft landing" without slowing the pace of an expansion. Activity, in any case, has been temporarily depressed by several special factors, including the lengthy Boeing strike and the delay in agreeing a 1996 budget – under the emergency rules federal spending is lower than planned.

As these temporary restraints are lifted, growth may rebound naturally to about 2.5 per cent next year, close to the long-term trend. Since there is little or no slack to take up, the benefits of adding to the substantial stimulus already provided by lower bond yields and higher share prices are at least questionable: nobody, incidentally, can say with precision what constitutes a "neutral" federal funds rate. A looser monetary policy would certainly stimulate faster growth of nominal gross domestic product. But would this be reflected in faster real growth or higher inflation?

Those who believe inflation will never revive should recall that strains are usually felt late in business cycles when growth (and hence labour productivity) is declining. Wages began to accelerate in the late 1980s only when the jobless rate fell below about 5.5 per cent, a range that the Fed has managed to avoid only by tightening the monetary screws significantly.

Taking away the punch bowl just as the party gets going is the traditional – and unpopular – task of central banks. Mr Greenspan rose to this challenge superbly last year. His guests – at least those resident on Wall Street – are now demanding that the bar be re-opened. The Fed should wait for confirmation of economic weakness before obliging – and then stick to beer and wine: an already tipsy bond market does not need spirits.

Will Greenspan follow the markets?



Source: Merrill Lynch

With just four years to go before 2000, thoughts are turning to the new millennium. Today the FT launches a series of profiles of men and women who may play a leading role in the early years of the 21st century. From China in the east to California in the west, these leaders of the future are already making their mark in business, politics, science and the arts.

LEADERS FOR A NEW MILLENNIUM

Shi Yuzhu • By Tony Walker

Shy giant with brain of gold

Some might regard Mr Shi Yuzhu's ambitions as far-fetched. Bnt in China these days, a man's reach may indeed exceed his dreams, and Mr Shi, a shy mathematics graduate from Anhui, one of China's poorer and more backward provinces, is bent on proving it.

Like thousands of other Chinese entrepreneurs he has taken advantage of the economic liberalisation of the past decade or so to build a thriving business. In just six years, his Zhuhai Giant Advanced Technology Group has grown from a software venture with a staff of two into an enterprise with interests from biotechnology to retailing, an annual turnover of Yn1bn ($120m) and a workforce of 3,000.

The 33-year-old entrepreneur seems set to become a force in the Chinese business world – and perhaps beyond – into the next century. By the end of the decade, he plans to have opened 2,000 retail outlets across China selling consumer items, including ths compnter software and healthcare products marketed by his company.

When he graduated top of his class in mathematics in his county school, Mr Shi's dream was to emulate Mr Chen Jinrun, China's foremost mathematician. Now his ambition is to make Giant China's top-ranked private company. "All my dreams are linked these days with the Giant corporation," he says.

He is sometimes referred to as China's Bill Gates, who founded Microsoft, since his business began by producing computer software. One of his early successes was the "thinkpad", a gadget that allows computer users to enter Chinese characters into their computer by writing them rather than having to remember the complex strokes to key them in.

But Mr Shi sees a more appropriate model in Lord Sieff, the former chairman of Marks and Spencer, the UK store chain. His planned assault on China's consumer products market would follow some of the practices employed by the British retailer. "We want to become a business that serves the family," he says. "Only after you become part of the daily life of people can you grow really big."

Mr Shi was thinking big right from the start of his career in business, which was why he named his company Giant. "We had a vague idea of setting up something big – a multinational," he recalls.

From an initial investment of Yn4,000 ($493), borrowed from friends and family, the company has grown with surprising speed – even by the standards of China's economic revolution. "The philosophy and aims of the company are changing all the time as we keep growing," he says.

'Only after you become part of the daily life of people can you grow really big'

Giant is now devoting substantial resources to developing and patenting healthcare products. Its "gold brain" capsule, a tonic that was said to improve the functioning of the brain, has been an enormous commercial success. Marketed in the summer, in the run-up to China's annual high school exams – a make-or-break event for Chinese teenagers – it produced net profits of Yn150m for the company. Now Giant is promoting a slimming preparation, and working on an elixir that would slow the ageing process.

Mr Shi insists that software will remain a core activity no matter how fast the business develops in other areas. "Of course, there is no way we can compare ourselves with Bill Gates," he says. "But one thing we can certainly learn from him is never to give up this high-tech area."

His newest product is a selection of 66 laser discs incorporating a comprehensive selection of Chinese textbooks. But Giant, like the big multinational software producers, finds its products are pirated almost as soon they are released. "That is why," he says, "we try to bring out a new product every six months – to stay ahead of the counterfeiters."

Mr Shi is the antithesis of the pampered sons and deughters of the communist elite, many of whom pepper China's new business class. He dresses modestly like all members of his male staff in the company uniform of white shirt, dark trousers and matching navy tie. Women wear white blouses and navy skirts. His salary is Yn10,000 a month.

The entrepreneur says he is applying some of the principles of the communist revolution to his business. "If you want to build an army, a party or an enterprise, you need to have a principled and disciplined organisation," he says. "You should strive hard and live frugally. I don't think one needs too much money for one's own needs."

Following a tenfold growth in staff numbers in the past year, Giant is for the first time coming up against personnel problems such as how to weed out non-performers. We rarely fired our people before. But now we are starting to do it," he says. "We are expanding so rapidly that we are finding people are not up to standard. We tell them this is not a state-owned enterprise."

Remarkable as it may seem, Mr Shi is not the acknowledged owner of the business he has built. It is regarded as a collective enterprise owned by the staff, and technically under the authority of tha Zhuhai special economic zone which faces Macao.

He wants this issue clarified in time for Giant to be listed on one of China's stock exchanges. He recognises that if the company is to grow into the conglomerate he envisages it needs fresh capital.

While Mr Shi is shy to the point of finding it difficult to communicate with a foreign journalist, there is no doubt that underneath a diffident exterior he is both tough and creative – and almost certainly something of an eccentric.

Visitors to his spotlessly clean headquarters – no smoking on the premises – pass an eclectic mixture of statues on the way to his office. On either side of a corridor are life-size statues, including George Washington, Isaac Newton, Confucius, Napoleon, Marie Curie, Beethoven, Mao Zedong and Deng Xiaoping.

There is also a vacant plinth – left, according to Mr Shi, to raise the question in people's minds of who might be worthy to stand alongside others of such profound achievement. He rejects a suggestion, with a laugh, that in time it might be him.

As Giant becomes bigger and more successful in the raw Chinese business environment, Mr Shi is likely to find it more difficult to achieve his ambitions. But no one should doubt his resolve to stay the course.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Experience counts

From Mr Erik Tonseth

Sir, It is regrettable that Mr Richard Needham, a former overseas trade minister, takes such a chauvinistic line in his letter to you (December 16) on Kvaerner's bid for Amec.

With his overseas experience he more than most would know that in global markets it is size, experience and resources that count. We have invested heavily in new technology and our move would strengthen not weaken the UK construction effort overseas.

Kvaerner, which has been operating in the UK since 1989 (and has invested over £100m), made thet clear when it made a presentation to Mr Needham last year and Kvaerner representatives joined his trade mission to India, for example.

Last year 60 per cent of our contracts were won overseas, bringing valuable work to the United Kingdom. That we intend to grow.

But Kvaerner wants to take on the two US giants in international construction and a combined Kvaerner-Amec team would be better equipped to do thet.

In Indonesia, for example, Kvaerner has won contracts worth $400m in the last three years – far bigger than Amec – and made a profit.

If our bid succeeds, Kvaerner will have far more employees in the UK than in Norway and we shall operate our international effort from this country.

Mr Needham's appeal is ill-based as those concerned in government with the UK's major export effort – and inward investment – well understand.

Erik Tonseth,
chief executive,
Kvaerner,
PO Box 100 Skφyen,
N-0212 Oslo,
Norway

Emu too complex for such certainty

From Sir John Nott.

Sir, I do not think that Sir Michael Palliser, Sir Michael Butler and Sir David Hannay (Letters, December 14), three very distinguished former diplomats, are any better qualified to speak for the views of British business than Mr John Redwood, an elected member of parliament and a former minister.

Some humility might suggest that none of us knows the considered views of Britisb business simply because the overwbelming majority of businessmen do not understand the issues, and regrettably many of them do not wish to do so.

The Food and Drink Federation, a very large constituent of British industry, has recently put to the Confederation of British Industry a series of immensely complex questions about European Monetary Union to which no expert, I suggest, can yet give an answer. The council of the CBI speaks only for itself.

However, what businessmen and leading politicians are qualified to ask is whether a parliamentary democracy would, for any length of time, tolerate the supremacy of an unelected European Central Bank, particularly if falling activity levels set up dangerous social pressures. What is going to let the steam out of the kettle without exchange rates?

The viability of Emu will not be based on meeting convergence criteria at a single moment of entry and then kceping economies aligned by institutional fines and other pressures; it will be dependent on whether the diverse cultures, traditions and attitudes of the peoples of Europe can be constrained by a superimposed monetary framework.

As economic secretary to the Treasury, I remember what happened to the Snake in 1972; as a merchant banker, I experienced the UK's final months in the ERM and, now as a businessman, I watch the death throes of the *franc fort*.

Sir Michael, I admire your passionate belief in European integration. But the voters of Europe, who include its businessmen, do not share your certainties, and they are right.

John Nott,
32 Hampstead High Street,
London NW3 1QD, UK

From Mr Nicholas Berry.

Sir, The three eminent business knights who wrote to you about a single European currency (Letters, December 14) ignore the key point. Single currency implies a single taxation system, and therefore a single European government.

Do they think so much of Britain's own bureaucracy that they want to add a second one on top?

Nicholas Berry,
chairman,
Stancroft Trust,
Bride House,
20 Bride Lane,
London EC4Y 8DX, UK

Flaws in Shell's approach on Nigeria

From Mr Danyal Sattar, Dr Simon Zadek and Mr John Elkington.

Sir, As your "Trading with the 'pariahs' " article (FT Exporter, December 14) shows, engagement with "difficult markets" such as Nigeria, is an issue that will not go away for business. Shell recently attempted to redress the record on its real and perceived environmental and social performance by setting out the facts as it sees them in a newspaper advertisement campaign. As an exercise in corporate social reporting it was deeply flawed.

It seems to us that, to establish the facts of Shell's commitments and performance, two principles need to be observed. First, consultation. Those who are affected by Shell's activities, the company's stakeholders (directors, employees, local communities, customers, environmental and social non-governmental organisations), need to be part of the process which considers and evaluates the evidence. Given the pressing nature of the Nigerian issues, these would clearly need to be central, but a balanced assessment would need to cover other areas too.

Second, we would suggest any such process would need to be externally validated. This would help rebuild the company's credibility in respect of the information it provides. We see the continued problems with Shell's environmental audit process in Nigeria as evidence that the lack of independent external validation of such processes can undermine both internal and external confidence.

We believe there is a growing focus on the "triple bottom line" of sustainable development: economic prosperity, environmental protection and social equity. A company of the size and significance of Shell surely owes it to its shareholders to ensure that its auditing and reporting activities address all three items with full transparency.

Danyal Sattar, UK Social Investment Forum,
Simon Zadek, New Economics Foundation,
John Elkington, Sustain Ability
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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday December 18 1995

Making a reality of Emu

If there were any residual doubts about the political will behind the European Union's plans for a single currency, they should have been dispelled by the conclusions of the Madrid summit. Whatever the practical obstacles facing the plan for economic and monetary union, EU leaders offered a convincing display of their determination to make a reality of the uninspiringly-named "Euro" before the end of the century.

Mr Jacques Santer's comment that the EU is now committed "irreversibly" to Emu was echoed by Chancellor Helmut Kohl and President Jacques Chirac. It should not be forgotten that a single currency remains conditional on France'a ability to meet the economic convergence criteria for participation. And a victory for Mr Chirac in his battle with France's public sector trade unions is a necessary but not a sufficient condition. Mr John Major, however, found himself alone nt the summit in voicing serious concerns about the wisdom of tha whole project.

Under the timetable agreed in Madrid, EU leaders will decide in early 1998 (most probably March) which member states fulfil the conditions for joining. Emu will begin on January 1 1999, with the irrevocable locking of exchange rates and the transfer of interest rate and foreign exchange policy to a European central bank. Governments will begin immediately to issue public debt in the new currency. By January 2002 at tha latest, Euro banknotes and coins will start to circulate. National currencies will be completely withdrawn six months later.

No dilution

The EU leaders re-affirmed that there would be no dilution of the convergence criteria agreed at Maastricht. They also gava a fair wind to Germany's demand that the participants must agree in advance to the terms of a stability pact which would ensure firm control of budget deficits.

During the next few months, the EU's finance ministers will examine in detail the relationship between the "ins" and "outs" if, as seems likely, only a modest minority of countries qualify to join in 1999. Whatever Mr Major'a motives, he won some support for the view that the existence of a bard-currency inner core would undermine the EU'a stability and coherence unless the relationship is properly defined.

The UK prime minister, however, is likely to be uncomfortable with the answer favoured by other EU governments. Most appear to back the Commission's suggestion that those outside the Emu bloc should link their currencies to the Euro though a mechanism modelled on the present ERM.

Second decision

In the Commission's view, that would remove the risk of competitive devaluations and resultant pressure on the single market. And if the UK and Denmark were to exercise their opt-outs from a single currency, they would face a second decision. They could join Emu aspirants (in the latest jargon, "pre-ins") like Italy and Spain in the new exchange rate system, or allow their currencies to float without constraint.

Sensibly, Mr Major responded to such prospective dilemmas by saying that the UK will reserve its position until 1998. In doing so, he has rightly rejected the demands of his party's Euro-sceptics that he should rule out now sterling's participation in the first phase of Emu. Instead the Treasury and Bank of England will continue to be engaged actively in the technical preparations for Emu.

For all the enthusiasm at Madrid, there is little sign yet that a single currency has caught the imagination of Europe's citizens. Instead, the French fear the threat to their welfare system, the Germans the loss of their currency. The summit did little to dispel the impression that the grand visions of Mr Kohl and Mr Chirac remain some distance from the preoccupations of their electorates.

The Commission plans an extensive publicity campaign to promote the benefits of Emu. But if it now seems more likely than not that a single currency will be created by the turn of the century, its success will turn ultimately on whether the Union can make the idea relevant to its citizens.

Media, moguls and markets

How should ownership of media be regulated when the industry is in a state of permanent revolution? The UK government's Broad casting Bill, published on Friday, has done a thoughtful job in tackling that question. But in accepting media groups' proposition that size is necessary for success in the global media business, it has been more generous than strictly necessary to their ambitions.

The government rightly starts from the principle that there is a public interest in the diversity of ownership and variety of content in this industry. The bill sets out to reconcile that interest with the desire of media groups to grow larger.

In parts, it has done a good job. It has made rules on ownership of different media simpler and more flexible. If passed, it will undoubtedly give rise to takeovers, some controversial. But the bill recognises that the UK is a relatively small country, and not much consolidation is possible without sacrifice of diversity.

For instance, in replacing the two-licence limit on ITV owner ahip with a ceiling of 15 per cent of total television audience, the bill would almost certainly mean the end of tndependence for smaller ITV companies. Yet the new requirement rightly recognises that the means of distribution – terrestrial, cable or satallite – is becoming irrelevant. In treating television as a single market for the first time, it may have provided a tighter check in the long run than previous rules.

Important failings

However, there are important failings. In particular, the government has accepted the questionable argument that in media, companies need a large domestic base in order to compete internationally. It also appears to believe that there is great synergy between different types of media, an argument often at odds with the performance of acquisitive media groups.

That bas led it to relax the restrictions on owning different types of media within the UK and within one region more than may have been necessary. It also seems to equate competitiveness with size, a definition witb whicb neither customers nor shareholders are likely to agree, and to assume that only large companies have the ability to finance investment.

Perhaps because ministers are cautious about finance for new technology, the bill proposes relatively relaxed ownership rules for digital terrestrial broadcasting: a single private company can own three of the three-and-a-half available multiplexes (blocks of digital channel capacity). The bill is right to take a cool view of the prospects of digital terrestrial services, in marked contrast to the Department of National Heritage's gushing enthusiasm a few months ago. But the rules on this point may prove too loose.

Greatest problem

Perbaps the greatest problem with the bill is that it may have stored up future headaches for the competition authorities. After all, its aim is simply to protect diversity; it leaves the task of creating a competitive market to competition law.

But if the competition authorities are to grapple with questions of abuse of market power, fair trading and predatory pricing, they will bave to answer notoriously difficult questions which the bill has not addressed, such as defining the market in question.

These are issues which hava stalled European Union discussions on media ownership, and it is therefore somewhat disingenuous for ministers to say that they could not wait for EU talks to conclude before bringing out their bill. Tbe bill also leaves other loose ends, sucb as the row about Channel 4's funding, and the fragile state of the independent production sector.

The attempt to strengthen guidelines on sex, violence and decency on television, in the same breath as heralding a new age in media, has a similar air of wishful thinking.

This unfinisbed business means that the bill is unlikely to take the UK a long way through the multimedia revolution. But It is a realistic response to changes now under way. Less ambitious than earlier legislation in attempting to predict the future, it is also much more satisfactory.

The FT Interview · Eddie George

Reflections on a rough year

The governor of the Bank of England tells Robert Chote that, in spite of short-term uncertainties, it is now more likely than not that the government will hit its inflation target

Nineteen ninety-five has been a rough year for the Bank of England. Its advice on interest rates was rejected for months by Mr Kenneth Clarke, the chancellor; it has been accused of negligence over the collapse of Barings bank; it has suffered a slide in staff morale; and it has lost a deputy governor, who quit after press disclosures about his private life.

Despite such an eventful 12 montbs, tbe governor, Eddie George, is in a relaxed and upbeat mood. In his office last week – wbere the festive season is celebrated in a strand of green tinsel across the top of his Reuters terminals – the governor conceded that 1995 had brought a bumpy ride. "But I think we end the year in a stronger position than we started it."

It is certainly going out in style. Last week, the governor agreed with the chancellor that British interest rates should fall for tbe first time in nearly two years.

He said this made sense because good news on costs and prices – plus evidence of weakness in economic activity – meant it was now more likely than not that the government would hit its target for underlying inflation of 2.5 per cent or below in two years' time.

"We have had tremendous success keeping inflation down, notwithstanding being dealt what was a pretty difficult hand", Mr George said. Rises in interest rates over the past 15 months had ensured that price pressures from overseas had not been allowed to have a knock-on effect at bome.

"Now we face another kind of external difficulty – the slowdown on the continent which is a big factor in the concerns about a slowdown bere." He said weakening export demand had left companies with excessive stocks of unsold goods to dispose of. "For a quarter or two, anyway, activity might be softer than it would have been otherwise. These circumstances are not the worst I've known but neither are they the best."

The governor said the short-term outlook was still uncertain. There were good reasons to expect consumer spending to pick up next year, and the slowdown in Europe was also likely to prove temporary. Bot, while manufacturers were spending happily on plant and machinery, there was a downswing in utility investment and still an overhang of industrial and commercial property.

The governor was quick to emphasise that last week's rate cut was not an attempt to arrest a slowdown in the economy over the winter months.

Similarly, the chancellor's Budget prediction of a strong rebound in activity next year had not had much influence on tba Bank's advice. Said Mr George: "The purpose of the quarter-point rate cut was not to try to sustain activity in the short run, but reflected the fact that the likelihood of knock-on inflationary pressure had reduced".

The Bank had no growth target, explicit or otberwise.

Despite the chancellor's rejection of his request for a rise in base rates in May, Mr George said the past year showed that the monetary policy framework was working well and that people were learning what an uncertain process it was.

"We have been moving in steps of sensible size rather than, as so often in the past, responding to excitements in the markets – arriving in the morning, seeing an upset, ringing the Treasury to say we have a problem, having a meeting and so on. Things are on a mnch stabler footing."

But it was essential to remain cautious. "The persistent decline in the British economy in relative terms has been because we have tended to take risks on the side of sustaining activity in the short run. We have less flexibility than, say, the Bundesbank, which has a much better established track record of getting it right. If we had that sort of credibility, then we would have more scope to keep closer to the precipice."

Mr George told MPs recently that the chancellor's decision to reject his advice in May had damaged the credibility of anti-inflation policy, weakening the pound and raising gilt yields. But the governor also believes that such differences are inevitable and that May's little spat was only "technical".

"This was a disagreement about half a per cent at what turned out to be at the top, at least temporarily, of the interest rate cycle".

This phrasing suggested that the governor had not ruled out the need to reverse last week's decision, although he hurriedly insisted that his comment "ought not to be taken as a prediction about where we go from here, because I honestly don't know".

Mr George said that even though there had been costs for the economy in the wake of May's decision, things had turned out fortunately with the revival in the dollar averting a serious assault on the pound. "I'm thrilled about that. I genuinely am. I would much rather that we were perceived to get it wrong than for things actually to go wrong."

Media comment on interest rate policy during 1995 has centred on the personal relationship between the chancellor and the governor. Mr George complained that it had often been portrayed as a tennis match, with each protagonist fighting to score points off the other. But the governor said he had been glad to have Mr Clarke on the other side of the net.

"I think I have been fortunate, particularly in the early phase of policy transparency, that the chancellor has self-confidence – it is not an arrogance, but he is very brave, I think. He is not jumpy and nervous."

Mr George said that it had been enormously helpful that the chancellor was comfortable stating that be disagreed with him – and vice versa. "There has been no personal animosity or anger in the relationship between us. It is entirely natural to disagree."

May's disagreement signalled one of the most awkward periods of 1995 for the Bank, but just as difficult was the collapse of Barings at the hands of the trader Nick Leeson. This cast a shadow on the Bank's reputation as a regulator.

"Barings was a very fine financial institution and to see it destroyed in that way was a very great upset." Mr George said he was happy with the Bank's handling of the situation, arguing that in the long term it would encourage more activity in London. But there were lessons to be learned. Mr George said it was important to put in place "a 'quality assurance function' so we are continually sweeping across to ensure we have consistently high standards across the supervisory division".

In terms of regulation within the UK, the governor expressed doubts about the idea wbich is gaining some support in the City of bringing together the Securities and Investments Board and the other self regulatory agencies into a single organisation.

"If you had a superstore it would have to have an awful lot of departments. I don't know whether you could co-ordinate departments any more easily than you could improve co-ordination between the existing regulators."

The challenges of Barings and the handling of monetary policy have placed extra pressures on the Bank's staff, which have come on top of a painful management reorganisation. "There is no question that there is a morale problem", Mr George conceded.

He said it had been important to recognise that most Bank staff did not spend their whole career with the organisation – even if the resulting changes meant that some staff no longer fitted in. "In trying to acknowledge that reality, we gave the impression to the staff that we had changed from a paternalistic institution to a hire-and-fire institution. It will take us quite a while to convey the right messages."

Bedding in the Bank's new structure and rebuilding confidence within the organisation is the primary responsibility of Howard Davies, who joined the Bank as deputy governor following the sudden departure of Rupert Pennant-Rea. But it will be an important concern on Mr George's mind too.

It is difficult to imagine that 1996 could be more eventful for tha Bank than 1995, but there is plenty of work to be done to persuade politicians that monetary policy would be safe in the Bank's hands and that its responsibility for supervision of the financial system should not be taken elsewhere.

Mr George knows that the stakes are high and is ready for the task. "We want to preserve one Bank. That is absolutely agreed."

Meanwhile his annual skiing holiday, so rudely interrupted this year by the Barings crisis, is scheduled for next February. He leaves the impression that it will take an earthquake or two to bring him back early this time.

· OBSERVER ·

Talisman star-gazing

■ Stars and oil wells may seem a study in contrasts. But Jim Buckee, chief executive of Calgary-based Talisman Energy, has managed to put his Oxford doctorate in theoretical astrophysics to good use in the oil and gas business.

Talisman is proving to be one of the bungrier acquisition merchants in its sector in Canada. Last Friday, it unveiled a friendly £131m bid for Goal Petroleum, one of the biggest independent North Sea producers. Just over a year ago, it gobbled up Bow Valley Energy, a mid-sized Canadian producer formerly controlled by British Gas.

None of this seemed likely when British-born Buckee, now 49, arrived in Calgary four years ago to head the Canadian subsidiary of British Petroleum. His mandate was to get rid of its mining business and focus on oil and gas exploration, and production. Less than a year later, BP sold its 57 per cent stake in o public share offering.

One condition of the deal was that Buckee, who had spent two decades working for big integrated oil companies, woold remain in charge of the newly-independent outfit. He changed its name to Talisman Energy, and hasn't looked back.

Buckee recognised that virtually the same mathematical equations explain the flow of matter in stars and oil reservoirs – and by his mid 20s, he had sensed that the energy business might be the more glamorous of the two pursuits.

"If you're a theoretical astrophysicist, you get a pencil and a blank sheet of paper, and that's about it," says the man at the well-head.

Sandoz keeps fit

■ Let's trust it is third time lucky at Sandoz, the Swiss health and nutrition products group.

Alexandre Jetzer, who has just been named chief executive officer, is the third Sandoz manager to hold the title since chairman Marc Moret, 72, relinquished it in 1992 in what was seen – apparently wrongly – as a first step towards the great man's retirement.

The first, Daniel Wagnière, was demoted to technology director just a year after his appointment. He was replaced by Rolf Schweizer, a veteran of the group's industrial chemicals division. Schweizer, who led the chemicals division into independence as Clariant last summer, will resign from Sandoz on January 1 and will be replaced by Jetzer, now head of Sandoz operations in the US.

And what of Moret's retirement? "That is up to the board and Mr Moret to decide when they see fit," says Raymund Breu, group finance director. Breu cautions that Jetzer's appointment should not be interpreted as an indication that he will be Moret's successor.

Well no, that might indeed be a shade premature.

Silver lining

■ Those poor Parisians, plagued by terrorist attacks, then public transport strikes, for months. But the combination of a heavy police presence and the lack of suburban rail links between the impoverished suburbs and the city centre has at least done something for the crime figures – down 18 per cent in November when compared with the same month last year.

Then again, maybe France's delinquents somehow count themselves as part of the public sector, and are simply on strike.

You're fired

■ So much for the season of goodwill. More than half (55 per cent) of employees in the UK would categorise their bosses as Scrooges rather than as Santas, according to a survey conducted by international management consultants Proudfoot.

The most ubiquitous Scrooge-like quality recognised by those questioned was a failure to pay adequately. An unwillingness to provide adequate promotional opportunities ranked a close second.

Bosses might also perhaps be interested to know that 27 per cent of their subordinates thought of them as donkeys (rather than wisemen, shepherds or innkeepers) – in other words, stubborn and resistant to change.

No surprise that Scottish respondents were particularly inclined to identify a Scrooge in their boss. US employees, meanwhile, are happier campers, with over 52 per cent of those partaking in a similar survey considering their employers as Santas.

And Observer's bosses, how do they rate? Oh, Santas to a man, natch.

Get a blast

■ Hot news – forgive the pun – from Japan. Scientists reckon that by using doses of radiation strong enough to kill 250 people, they can make bad wine taste good and cheap whisky smooth. Hiroshi Watanabe, joint head of research at the Japan Atomic Power Company's research facilities in Takasaki, just north of Tokyo, says: "If you irradiate good wine or whisky, they taste terrible. But if you expose bad wine and cheap whisky to gamma rays, they taste much better."

Seems a high-risk strategy to Observer, who prefers the tried and trusted method of making cheap booze taste better by drinking more of it.

Financial Times

100 years ago

The Shipyards' Dispute

Our Glasgow correspondent telegraphed last night: The Clyde engineers' strike entered tonight into its seventh week, and both sides are as fully determined to carry on the strife as ever. The masters have gone as far as they can, and this evening at a meeting of their committee the proposal was discussed as to whether they should attend the adjourned joint conference as it was put forward that no good results could be expected in face of the uncompromising attitude of the men.

I am reassured tonight that the Belfast and Clyde compact lasts only until 31st December, although the understanding may be renewed. Today is regarded as being the blackest in the dispute and it is hinted the masters may be forced to withdraw the offer of one farthing promised on 3rd February, as in this promise the calculation would have been based on the fact that the men would have been six weeks at work at the lesser wage. I am also assured that if the Clyde and Belfast strike is carried on well into January, the North of England men will be locked out.

The masters til now have inclined to stand and watch, but the appearances now point to their turning the aggressors.

FINANCIAL TIMES
Monday December 18 1995

Summit leaders pledge to treat applicants equally

Partial success for Kohl over EU enlargement

By Lionel Barber and David White in Madrid

Germany has won a partial victory in its drive to speed up the European Union's enlargement negotiations with central and eastern European countries.

After a two-day summit in Madrid, EU leaders pledged to treat all applicant countries on an equal footing, holding out the prospect of launching accession negotiations around the beginning of 1998.

Central and eastern European leaders attending the meeting on Saturday expressed satisfaction with the formula, though some appeared disappointed by its vagueness.

The summit declaration says the EU "hopes" to begin accession negotiations with the former communist countries in parallel with Cyprus and Malta. These two have already won a pledge from the EU to open membership talks six months after the end of next year's intergovernmental conference, most likely to be wrapped up in mid-1997.

Enlargement was one of the two big issues at the Madrid summit, which also agreed a blueprint for the launch of a single European currency on January 1 1999, to be called the Euro.

Chancellor Helmut Kohl of Germany described the summit as "extraordinarily successful". The monetary union blueprint bore the German stamp but the outcome on eastern enlargement was less conclusive.

Mr Kohl pushed EU partners to concede in principle that only a limited number of eastern Europeans could join the first wave of new members.

Germany's priority was early membership for the Czech Republic, Hungary and Poland, but France and the Nordic countries insisted all applicants should be treated equally.

The EU compromise is to try to establish objective criteria for countries qualifying for membership. The European Commission will present an opinion on individual candidacies after the end of the IGC, and it will be up to EU leaders to decide which countries are ready for full-scale negotiations. Eight countries have applied for membership – Hungary, Poland, Romania, Slovakia, Estonia, Latvia, Lithuania, with Bulgaria applying on Saturday. The Czech Republic is expected to request membership in the new year.

Mr John Major, British prime minister, warned of the need to confront the cost implications of taking in poor countries from eastern Europe. "We will bust the bank unless we have quite significant policy reform [such as] the Common Agricultural Policy."

Several leaders stressed that enlargement could only proceed if the EU agreed an adequate reform of its institutions, including more majority voting, to prevent the union being paralysed.

The summit agreed the IGC would be launched formally at a heads of government meeting in Turin on March 29, but President Jacques Chirac of France indicated he intended to boycott it because of the Italian vote in the United Nations against France's resumption of nuclear tests.

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Poll confirms dominance of Austria's Social Democrats

By Eric Frey and Ian Rodger in Vienna

Austria's conservative People's party, which provoked the country's second national elections in 14 months, has failed in its bid to displace the Social Democrats as the country's dominant political force.

The far-right Freedom party was becalmed at just above 22 per cent, the first time that it has lost ground in a national election since the charismatic Mr Jörg Haider took over a decade ago.

The Social Democrats, who campaigned on a promise to preserve the country's generous social benefits, raised their vote share from 34.9 per cent to 38.3 per cent. The People's party, which called for sharp cuts in government spending, edged ahead from 27.7 per cent to 28.3 per cent.

The outcome leaves uncertain how Austria's new government will tackle the problem of the country's ballooning public spending.

The result almost certainly means a renewal of the Social Democrat-People's party coalition, although with Mr Franz Vranitzky, the Social Democrat chancellor, in a strengthened position. Mr Vranitzky said he would insist on changes in both the composition of the coalition and the content of its programme.

The coalition collapsed in October over negotiations on the 1996 budget when Mr Wolfgang Schüssel, the People's party leader, felt the Social Democrats were more interested in raising taxes than cutting spending.

The result is an embarrassing setback for Mr Schüssel, who took over the leadership of the People's party last April and hoped to take advantage of the first rise in his party's poll standings in 13 years.

He ran a strong campaign, but raised anxiety among liberal-minded Austrians by refusing to rule out a coalition with Mr Haider's Freedom party.

Mr Schüssel said he was willing to rejoin the coalition, but only if, concerning the budget problem, the Social Democrats "put more on the table than in October."

The Social Democrats achieved their gains mainly at the expense of the marginal Greens and Liberals. The Greens' vote share fell from 7.3 per cent to 4.6 per cent, the Liberals' share from 6 per cent to 5.3 per cent. Mrs Madeleine Petrovic, the Greens leader, immediately offered to resign.

Austria uses proportional voting, so the shares will be closely reflected in the distribution of the 183 parliamentary seats.

For the Social Democrats, the victory at the polls could prove to be a poisoned chalice. The budget deficit is now approaching 6 per cent of gross domestic product, and economists believe both deep spending cuts and hefty tax increases will be needed to bring it down to the 3 per cent level required for participating in a common European currency.

Mr Haider rejected claims that his popularity had peaked. "Once people realise that Vranitzky cannot keep the promises he made, we will bounce back," he said.

Juppé offers to discuss reduction in hours

Continued from Page 1

several key areas of social security reform, stressing that the age of retirement and methods of calculating pensions for the range of special regimes in the public sector would not be altered.

The latest moves came after further demonstrations in Paris and around France over the weekend in opposition to the government's plans for reform. Police estimated 600,000 people took to the streets on Saturday. Union organisers said the figure was nearer 2m.

However, there were signs that public transport would be resuming almost normal levels during this week, as large proportions of the Paris metro network, suburban railways and inter-city rail systems began to operate following votes in local meetings of strikers to go back to work.

Old rivals to meet in European football finals

By Richard Gourlay

Germany and Italy, two of Europe's oldest football rivals, were yesterday drawn in the same group for the first round of next June's European Championships in England.

The draw pits them against the Czech Republic and Russia in a 16-country competition which now includes more European countries than ever before in its 40-year history.

England and Scotland, rivals on the football field for over 100 years, were also drawn together and will meet for the first time since 1989 when the annual fixture was abandoned because of persistent hooliganism.

Over 250,000 foreign visitors are expected for what will be the largest football competition England has hosted since 1966 when the national team won the World Cup.

The draw will be greeted by the eight English cities hosting the tournament with a mixture of apprehension and eager anticipation. The eight cities – London, Manchester, Birmingham, Leeds, Sheffield, Newcastle, Nottingham and Liverpool – are looking forward to a substantial increase in tourism revenues and will be using the tournament to promote themselves worldwide.

Manchester, Liverpool and Newcastle expect about 40,000 visitors each during the month-long tournament, while the British Tourist Authority hopes England will earn about $400m in extra tourism revenue.

The revenue from the competition might not be as great as expected. When Italy hosted the 1990 World Cup finals, tourism earnings rose only fractionally as visitors stayed away to avoid the football crowds.

Police forces will be girding themselves for possible trouble, though the Association of Chief Police Officers and the Football Association say they are hoping for a "festival of great football".

The football unit of the National Criminal Intelligence Service says that it has been planning for 18 months how to handle fans inside and outside grounds. It intends to set up an intelligence centre where police from each country will co-ordinate operations. The NCIS also expects each national force to provide police "spotters". In England, spotters travel openly with fans and have been credited with helping reduce trouble.

The groups for the first round are: A – England, Switzerland, the Netherlands, Scotland; B – Spain, Bulgaria, Romania, France; C – Germany, Czech Republic, Italy, Russia; D – Denmark, Portugal, Turkey, Croatia.

Additional reporting by Simon Kuper, Chris Tighe and Ian Hamilton Fazey

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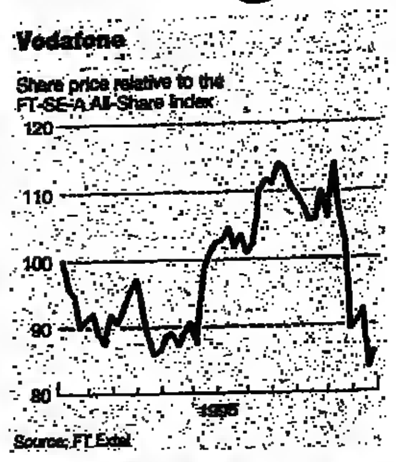
THE LEX COLUMN

Disconnecting Vodafone

Vodafone should consider demerging itself again. The mobile communications group pioneered this method of unlocking shareholder value in Britain when it split off from Racal Electronics in 1988. Vodafone should now contemplate demerging its UK and international operations as a way of reversing the recent sharp deterioration in its share price.

Vodafone's stock is suffering because investors are finally appreciating the toll competition is taking on its lucrative UK franchise. Though the UK mobile market is still growing rapidly, Vodafone's market share and tariffs are under pressure. But shareholders have not yet recognised the hidden value of Vodafone's vast international franchises. Though most are in a start-up phase, they will soon move smartly into profit. Analysts say the international portfolio would be worth more than £2bn if valued on a stand-alone basis. Subtracting that from Vodafone's £6.5bn market capitalisation leaves less than £4.5bn for the core UK business – valuing it, at best, on a market multiple. That looks stingy since the UK business is immensely cash-generative and its profits are still likely to grow, albeit at a more subdued rate than in the past.

Splitting the two businesses would encourage investors to focus on their respective values – just as the original Racal demerger did. One potential snag is that, while the UK operations are cash-generative, the international franchises are absorbing funds. But that could easily be overcome by loading Vodafone UK up with debt and giving Vodafone International the cash as a dowry.



Olivetti

Mr Carlo De Benedetti has lived up to his nickname of *l'ingegnere* by engineering another miraculous escape for his computer-to-telecommunications business Olivetti. Against all odds, the bulk of Olivetti's L2,257bn ($1.4bn) rights issue has gone to foreign institutions rather than underwriters. This removes fears that a large chunk would end up in the hands of unwilling investors, creating a massive overhang. Moreover, given a predominance of US shareholders, Olivetti's management is finally under pressure to deliver shareholder value.

Mr De Benedetti's success stems from a strategy of persuading investors to ignore Olivetti's current business and look to a future in telecoms. This was shrewd. The mobile telephone business, Omnitel, will make no meaningful contribution until 1998, but it is an attractive business with substantial value. Meanwhile, Olivetti's stake in an embryonic competitor to Stet in Italian fixed line telephony carries significant potential.

Nonetheless, this will probably not be Olivetti's last cash call. Any delays in restructuring the personal computers business, for example through union pressure, would be fatal. A one per cent fall in margins would cost L100bn, and closure charges could require another rights issue. Even if computers is successfully turned around, funding will be needed for the telecoms businesses. Of course, a larger telecoms company might be tempted to step in. But Mr De Benedetti would be a formidable opponent, even with his stake diluted to just 16 per cent.

Deutsche Telekom

Who says derivatives are divorced from the real economy? They are likely to facilitate Deutsche Telekom's upcoming privatisation, the second-largest ever arranged. An employee stock ownership programme arranged by Union Bank of Switzerland has been structured, using derivatives, to allow Deutsche Telekom employees to benefit from five times any gains in the share price, while protecting them from any decline. Unlike some previous deals, employees will benefit from the full extent of any share price appreciation during the six-year scheme.

This should help bolster demand for the deal and help to compensate for the lack of a domestic investor base in Germany and the current glut of telecom privatisations. Similar features have proved effective before: a one-year guarantee against losses on Repsol, the Spanish oil company, helped entice retail investors who had been badly burnt in previous offerings.

More importantly, the programme is a sweetener for Deutsche Telekom employees, for whom privatisation signals the loss of more than 40,000 jobs in the next five years. This type of scheme is likely to gain currency: such sweeteners could help pave the way for the rationalisation of many state-owned European companies, which, as recent events in France have illustrated, can meet strong resistance. In fact it has already been used in France, for example by Rhône-Poulenc. The downside protection, rather than the positive effect of the gearing, has unfortunately proved necessary in most of France's privatisations.

Corporate governance

Last week's decisions by the rail, post and BT pension fund trustees to publish voting guidelines should give some badly-needed focus to the UK corporate governance debate. Ultimately, only big shareholders have the power to change the way companies are run. It would help everyone to know how some of Britain's biggest shareholders think they should use that power.

Publishing sets of principles should spark healthy debate. It would make institutions dig guidelines out of bottom drawers and ask whether they are still right. Most importantly, it would mean they are more likely to be put into effect. A glance at some of the rail pension fund's principles illustrates the point. It likes bonuses paid in shares, not cash. And it thinks voting against reappointment of remuneration committee members is the best sanction against pay excesses.

Principles like these may be clear and thoughtful; the problem is few follow them. But once they have been published, they will have to be held to: if institutions fail to vote in line with them, they will be asked why not. The accountability of institutions, as much as the companies they invest in, will be sharpened.

There are, though, limits to this process. The rail fund itself thinks its guidelines focus too much on issues such as pay and too little on corporate performance. This is probably inevitable. Shareholders' most important responsibilities – to exercise judgment over corporate strategy and management competence – cannot be enshrined in one-dimensional rules.

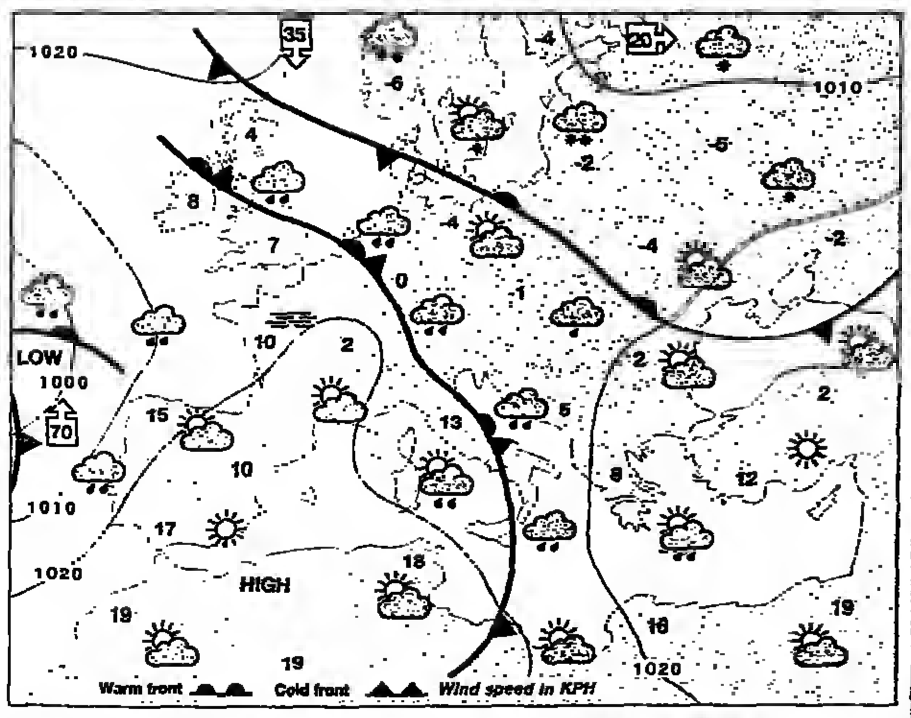
FT WEATHER GUIDE

Europe today

Cloud and rain will linger from the Benelux towards Italy. There will be rain and patchy fog in the UK and northern France. Elsewhere in France it will remain dry with temperatures ranging between 7C-15C. Spain will continue to be dry but cloud from the west will increase. Portugal will be mild with occasional showers. Temperatures in southern Scandanavia will start to decrease.

Five-day forecast

A frontal zone will linger from southern parts of the UK towards central Europe. North of this front freezing conditions will prevail. There will be heavy rain over Central Europe with snow in some regions. Temperatures will range between -3C and +8C. Further south, around the Mediterranean, conditions will be mild and dry.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	shower	25
Accra	fair	32
Algiers	fair	18
Amsterdam	drzzl	3
Athens	rain	12
Atlanta	rain	10
B. Aires	fair	35
B.ham	rain	6
Bangkok	fair	33
Barcelona	fair	14
Beijing	sun	3
Belfast	rain	6
Belgrade	rain	5
Berlin	fair	-4
Bermuda	fair	18
Bogota	cloudy	18
Bombay	sun	33
Brussels	fog	4
Budapest	drzzl	2
C.hagen	fair	0
Cairo	fair	18
Cape Town	cloudy	27
Caracas	cloudy	30
Cardiff	fog	7
Casablanca	cloudy	19
Chicago	cloudy	3
Cologne	rain	5
Dakar	fair	27
Dallas	rain	11
Delhi	sun	25
Dubai	shower	24
Dublin	cloudy	8
Dubrovnik	rain	13
Edinburgh	cloudy	5
Faro	shower	17
Frankfurt	rain	2
Geneva	rain	6
Gibraltar	fair	16
Glasgow	cloudy	4
Hamburg	fair	-2
Helsinki	cloudy	-4
Hong Kong	rain	18
Honolulu	fair	31
Istanbul	fair	8
Jakarta	shower	31
Jersey	cloudy	8
Karachi	sun	29
Kuwait	fair	16
L. Angeles	fair	18
Las Palmas	cloudy	25
Lima	sun	24
Lisbon	rain	15
London	drzzl	8
Lux.bourg	drzzl	4
Lyon	cloudy	5
Madeira	shower	22
Madrid	cloudy	10
Majorca	fair	16
Malta	fair	18
Manchester	rain	6
Manila	rain	29
Melbourne	shower	22
Mexico City	sun	20
Miami	cloudy	28
Milan	rain	7
Montreal	cloudy	-8
Moscow	snow	-5
Munich	rain	4
Nairobi	cloudy	26
Naples	shower	15
Nassau	fair	27
New York	fair	6
Nice	shower	15
Nicosia	sun	14
Oslo	fair	-3
Paris	fog	6
Perth	fair	29
Prague	ice	-1
Rangoon	sun	32
Reykjavik	snow	1
Rio	rain	28
Rome	shower	15
S. Frsco	cloudy	13
Seoul	fair	5
Singapore	thund	30
Stockholm	snow	-2
Strasbourg	rain	4
Sydney	shower	28
Tangier	shower	17
Tel Aviv	fair	16
Tokyo	fair	10
Toronto	cloudy	-2
Vancouver	rain	8
Venice	rain	11
Vienna	drzzl	2
Warsaw	cloudy	-2
Washington	cloudy	8
Wellington	fair	15
Winnipeg	cloudy	-12
Zurich	rain	4

FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 18 1995

MARKETS THIS WEEK

JOHN PLENDER:
GLOBAL INVESTOR
Looking back on this year non-American investors are acknowledged to have got Wall Street wrong while many Americans appear to have got it right for the wrong reasons. So many people were putting money on a further increase in interest rates that, in the event, failed to materialise. Page 22

STEPHANIE FLANDERS:
ECONOMICS NOTEBOOK
The surge in spending over the Christmas and new year sales period may be the lifeblood of the retailing industry, but for economists it is an annoying "seasonal fluctuation" and they will do all they can to adjust it out of the statistics. Page 22

BONDS:
European Monetary Union presents problems in capital markets, particularly the European Commission's plan to convert bonds and other long-term financial contracts denominated in Ecu into the new currency, the Euro. Page 24

EQUITIES:
Investors in London seem to have started winding down for the Christmas holidays. At least they can look back on 1995 with the Footsie nearly 19 per cent ahead. In New York, attention this week will *focus on tomorrow's meeting of the Federal* Reserve's open market committee. Page 25

INTERNATIONAL OFFERINGS:
The World Bank is drawing up a list of guidelines for countries to which it lends on how to appoint financial advisers for their privatisation programmes, giving it some control over how its money is spent. Page 25

EMERGING MARKETS:
The recession and financial uncertainty that plagued Mexico this year will continue in 1996. Its ability to stage a rapid economic recovery is impaired by a weak banking sector, dwindling personal incomes, and the prospect of continued high interest rates. Page 23

CURRENCIES:
Last week saw most leading European countries, with the exception of Italy, cut their rates. The question is whether the Fed will follow. Page 23

COMMODITIES:
The International Cocoa Organisation meets this week to discuss production cuts and whether chocolate should be made with 100 per cent cocoa fat. Page 22

INTERNATIONAL COMPANIES:
Broken Hill Proprietary, Australia's largest company, reported a net profit of A$876m (US$645m) in the six months to end-November, compared with A$1.07bn a year ago. Page 20
Dresdner Bank plans to build up a leading position in US and global asset management through its $300m purchase of RCM Capital Management of the US. The bank said the acquisition, agreed last week, will make it Europe's sixth largest asset management group, with total funds under management of $170bn. Page 21

STATISTICS

UK utility to name negotiator

British Gas bolsters team to settle dispute with North Sea producers

By Robert Corzine in London

British Gas is to name a prominent businessman this week as its special negotiator in the growing dispute between the company and North Sea gas producers over £40bn ($63bn) worth of long-term contracts.

The sole function of the negotiator, said to have extensive experience in solving business disputes, will be to handle the contracts issue, which is undermining British Gas's finances.

The negotiator, who will stay for the duration of the discussions, will join a team of senior executives being formed to deal with the issue. It is headed by Mr Roy Gardner, British Gas finance director, who has assumed full executive responsibility for resolving the dispute.

The company says the "take-or-pay" contracts should be renegotiated because they are a legacy of the monopoly era. The contracts require the company to buy gas – at prices higher than current levels – even though the advent of competition in industrial and commercial supply means it no longer has a market in which to sell it all.

Last month British Gas was forced to write £88m off the £520m value of gas which it paid for this year but did not use. Its position on renegotiation is supported by the government, which is keen to see an "industrial solution" emerge that would not require it to intervene directly.

The producers, which include some of the largest oil and gas groups in the world, have so far opposed any renegotiations. They say any action which undermined the value of the contracts would jeopardise the interests of their shareholders.

There have been contacts on the issue between British Gas and some producers. But British Gas says it is not going to press for formal renegotiations until February, when it intends to create a trading subsidiary into which it will transfer all the "take-or-pay" contracts.

Once the new trading company has been established, British Gas intends "to turn up the wick" on the contracts issue and bring greater pressure to bear on producers. "We want to get under their skin," said one senior executive.

Company officials declined to say what measures they might take. "But there are lots of things we can do after February," said one.

Dasa agrees to support Fokker while talks last

By Ronald van de Krol in Amsterdam

Deutsche Aerospace of Germany is prepared to continue providing financial guarantees to Fokker, its troubled Dutch aircraft unit, as long as talks with the Dutch government on a rescue plan carry on.

The statement averted the possibility of Fokker being relegated to the non-official section of the Amsterdam stock exchange at the end of 1995, when the German parent company's original guarantees had been due to expire. It was also designed to allay fears that suppliers and employees might not be paid if Dasa and the Dutch government fail to reach agreement before the start of 1996.

The Amsterdam Stock Exchange said it would retain Fokker's listing "for the time being" in the light of the Dasa statement. On Friday nervousness about Fokker's financial health after December 31 caused its shares to fall more than 13 per cent to Fl 7.20.

After meeting stock exchange officials, Fokker said it would be able to "continue its business after the end of the year by entering into commitments on the basis and within the scope of authorisations granted by Dasa". These would last "as long as the negotiations with the Dutch government have not been terminated by the government or Dasa, and Dasa has not officially announced the discontinuation of the arrangement".

The guarantees were provided in August after Fokker unveiled record first-half losses of Fl 651m ($401m). Agreement on the rescue, has been hampered by attempts by both Dasa and the Dutch government to get the other side to contribute as much as possible.

M&S asks Greenbury to carry on as chairman

By William Lewis and Martin Dickson in London

Sir Richard Greenbury is to remain as chairman of Marks and Spencer, the UK's leading retail group, for at least three years, but no more than six.

He became chairman of M&S in 1991 but said last week that he would retire no later than 2001, at the age of 65.

"I have been asked by the board to stay on and have agreed to do so," said Sir Richard. "It will be for a minimum of three years but no longer than six."

There had been speculation Sir Richard would step down as executive chairman of M&S, possibly to become non-executive.

Following his chairmanship of the Greenbury committee on executive pay, which published its report in July, Sir Richard announced that he would not take on any more public posts.

"There's a term of office and I think you can go on too long, and I don't want to do that, so I've agreed to go on until I'm 65," he said. "That means that everybody knows when I'm going, and everybody knows that over the next five years we'll have to find a successor to me as chairman."

He said that M&S's non-executive directors were "heavily involved" in the process.

M&S's executive share option scheme ends in 1997 and Sir Richard said the board's remuneration committee was discussing its replacement.

A number of business leaders have in recent weeks stated their opposition to the implementation of the Greenbury committee's report. Two committee members have warned that the report is in danger of being watered down, and have called for its full implementation by the stock exchange.

Sir Richard said he did not believe that the report's main recommendations were in danger of being abandoned. He said public companies were beginning to enact it, ahead of the stock exchange deadline.

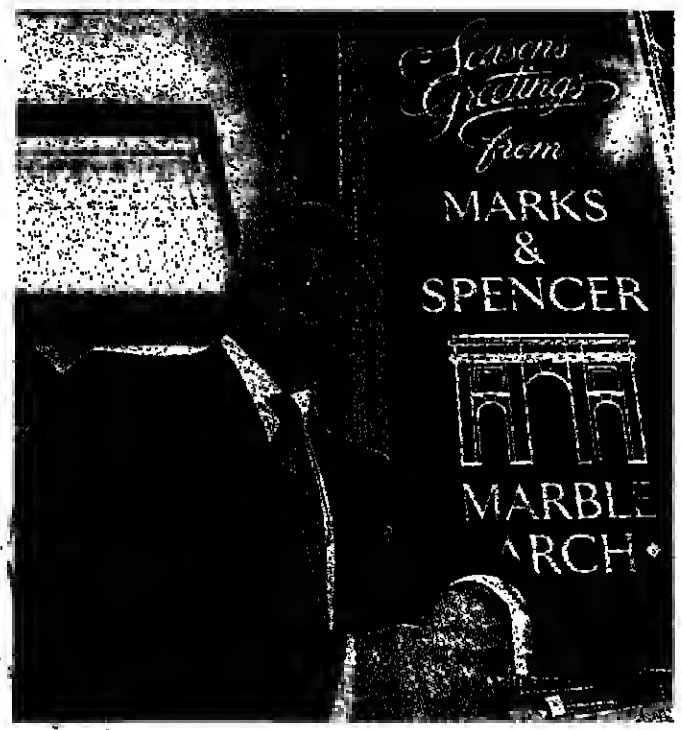
"If you can show me at the end of 1997 that nobody's listened, or nobody's done anything, well fine – give us a blasting. But for God's sake be patient," he said.

He said that the stock exchange's recommendation that only bonus schemes running for longer than three years – against the one year recommended by Greenbury – should be put to shareholders did not represent a significant change.

Concerns have been expressed that companies will structure bonus plans for their executives at just under three years to avoid a vote by shareholders.

Pay consultants have also argued that the proposed definition of bonus plans could lead to shareholders voting on directors' pensions at annual meetings. However, Sir Richard said: "We made it clear that we consider a long-term incentive bonus scheme, which you should take to the shareholders, is anything that gets shares. So whether it is an executive share option scheme, a long-term incentive or any kind of bonus scheme in which you give shares, you have got to go to the shareholders."

The chairman speaks, Page 10; Lex, Page 18



Trevor Humphries
Sir Richard Greenbury: 'Everybody knows when I'm going'

Bankers Trust to sell Czech shares to western funds

By Nicholas Denton in London

Bankers Trust, the US bank which bought 40 per cent stakes in two large Czech voucher funds last week, has moved to sell the shares on to western institutional investors. It said it had been in contact with a dozen fund managers on a sale of the Czech shares.

The two-stage transaction, together with Stratton Group's recent deal with the Harvard Capital group of voucher funds, marks a development in the Czech Republic's mass privatisation programme. Ownership in large Czech companies has passed from the state to the Czech public, through their ownership of voucher funds, and now increasingly to western financial investors.

The share deal, in which Bankers Trust is paying 6.7bn koruna ($2.5bn) in notes due in 2000, is the largest single investment in eastern Europe's nascent stock markets. Bankers Trust is taking the shares on to its balance sheet before receiving indications of the price clients are prepared to pay for the shares.

The risk that Bankers Trust would be left with shareholdings in a declining Prague market is limited by the agreement with Ceska Sporitelna, the Czech bank which had held the stakes in the two voucher funds, Cesky SPIF and Vynosovy SPIF. At the end of five years, Sporitelna has undertaken to take back the shares which Bankers Trust cannot sell, receiving shares rather than cash as redemption of the notes, and so cancel the payment.

It is believed Bankers Trust will hedge its exposure to movements in the Czech exchange rate by taking a long position in koruna – in effect buying the currency. If the koruna appreciates, Bankers Trust will profit through the long hedge position, so offsetting the greater cost of redeeming the notes, which are denominated in koruna.

In a "bought deal" such as that between Bankers Trust and Sporitelna, bank and client dispense with the long marketing procedure of a public offering or a private placement of shares.

These quick but risky bought deals play to the strength of institutions such as Bankers Trust and SBC Warburg which have the balance sheet strength and risk management skills to take a position and only later sell it on.

Individual investors in the two voucher funds had used their holdings as collateral for loans from Sporitelna, the Czech Republic's largest savings bank. Because the voucher funds trade at a deep discount, many have defaulted on the debt and abandoned their voucher investments, leaving Sporitelna with unwanted holdings.

Investment fund poised for new management

By Richard Lapper in London

The contract to manage River and Mercantile Trust, one of the UK's oldest investment trusts, is to change hands this week.

Robert Fleming, the investment bank is favourite to take over management of the £200m ($316m) trust, although three other fund management groups, including Foreign & Colonial and Jupiter Tyndall, are understood to be potential buyers.

The disposal signals a change of direction by River & Mercantile Investment Management (RMIM), now controlled by Mr John Beckwith, the property developer. Beckwith Asset Management, Mr Beckwith's investment management holding company, acquired a 49.9 per cent stake in RMIM last year and is expected soon to exercise an option to acquire full control.

It said yesterday the contracts to manage the four other trusts – Extra Income, Smaller Companies, American and Geared Capital – would also be sold "over the next month or so". Together, the five trusts managed funds worth about £347m at the beginning of this month.

Originally formed in 1881, the River and Mercantile Trust (RMT) has followed a conservative investment strategy, focusing on UK blue chip equities. RMIM, formed to manage RMT in 1985, specialises in managing split-capital investment trusts, which are divided up into two parts, one aimed at growth, the other at income.

This week: Company news

GRANADA/FORTE

A cold war brews over the festive season

With just over five weeks to go in Granada's £3.2bn ($5bn) hostile bid for Forte, the UK's largest hotels group, the parties will have little respite over the festive period.

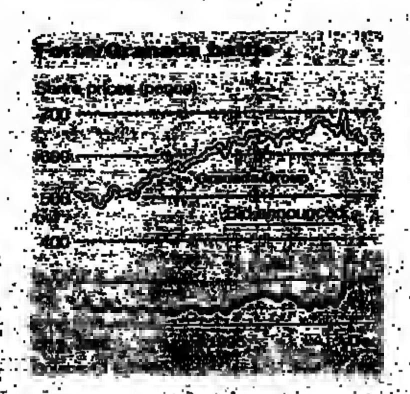
Forte is this week, possibly today, expected to announce the sale of its 72 White Hart hotels, for about £100m. Likely buyers are Oriel Leisure, a private company, and the management, led by Mr Paddy Mitchell, managing director.

Also this week, the Council of Forte, which safeguards Forte trust shares and could block the bid, is expected to go to the High Court. It is seeking clarification of its powers. The council holds just over half the voting rights but has never exercised its power to outvote shareholders.

The next important date is January 2 – the deadline for Forte to produce new financial information. By then it is expected to have revealed a new valuation figure for its hotels. As there was no mention of a dividend increase in its defence document issued on December 8, it might add this weapon to its armoury. It is also expected to have attacked Granada's record and plans by this date.

The real action could take place on January 9 – the last day for Granada, the UK TV and leisure company, to raise its offer. This is likely to be the decisive factor for many Forte shareholders. The closing date for the bid is January 23. However, if another bidder enters the fray, the 60-day timetable will start afresh.

Last week, Granada stepped up its attack on Forte's management. It said



it would raise Forte's ongoing profits by £100m in Granada's first full financial year to October 1 1997, were the acquisition to succeed.

Sir Rocco Forte, chairman of Forte, described the assertion as a transparent attempt to support Granada's share price.

OTHER COMPANIES

Amec poised to learn its fate

The deadline for one of the UK's more rancorous hostile bids closes at 1pm today when Amec, the UK construction and housebuilding group, will learn if it is to remain independent.

Kvaerner, the Norwegian ship-building and engineering group, has bid £360m ($569m) for the UK group, which has had a poor profit record in recent years.

The bid battle has prompted Takeover Panel rebukes and threats of legal action as well as intervention by an Indonesian government minister backing Amec's cause in a letter to Mr Michael Heseltine, deputy UK prime minister.

The issue, however, will be decided on price and on whether Amec's signals of a profits recovery in 1996 will be accepted by its long suffering shareholders. The outcome is expected to be close. Kvaerner on Friday held a 26 per cent stake but several large shareholders appeared to be swinging behind the Amec management.

■ **Howden Group:** The UK industrial *fans and tunnelling equipment* manufacturer is expected to unveil first-half profits of about £12m tomorrow. Although the company has seen a slowdown in the North American power engineering markets and increased competition in Germany, order intake is thought to remain robust and should enable it to offer a 1p interim dividend.

■ **First Choice Holidays:** Few analysts hold out much hope for the UK's third largest tour operator when it reports its full-year results tomorrow, especially after the company commented that the UK holiday market was flat and then that it had "fallen off a cliff".

In a profits warning in September, First Choice forecast pre-tax profits after exceptionals of "not less than £1m" for the year to the end of October, compared with £16.3m previously. Analysts are taking the £1m figure as their guide, which gives negative earnings of 1.5p. First Choice is expected to report on bookings for the winter holiday market and early reservations for 1996 holidays.

■ **CRA and RTZ:** On Wednesday, at separate meetings in Melbourne and London, shareholders of Australia's CRA and the UK's RTZ will vote on a *proposal which would see the two* mining groups merge operationally, but retain separate share listings. CRA, in which RTZ holds a 49 per cent stake, said last week that the meetings would go ahead despite the Australian federal government's decision to attach conditions to its approval for the deal. But even if shareholders approve, this may not be the final word: the mining group conceded that it wants to talk to the government about the restrictions, and implementation of the "dual-listed companies" deal could be delayed while this is happening.

■ **Coal Investments:** One of the mining companies formed to take advantage of the break-up and privatisation of British Coal a year ago, is expected to report losses of about £10m on Thursday, when it announces interim results.

Companies in this issue

Oil side behind first-half decline at Broken Hill

By Nikki Tait in Sydney

Confronted with slowing economies and a rising tax charge, Broken Hill Proprietary, Australia's largest company, reported a net profit of A$876m (US$650m) in the six months to end-November.

The figure compared with A$1.07bn in the same period a year ago, but this was inflated by an abnormal profit of A$234m resulting from the sale of the group's stake in Woodside Petroleum. If abnormal items were excluded in both years, BHP's profits were down 3 per cent to A$811m.

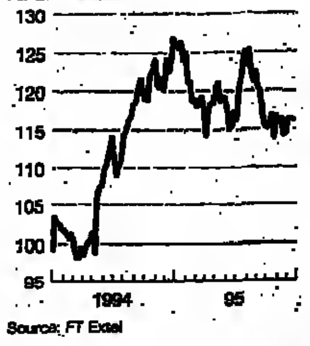
Basic earnings per share fell from 54.5 cents last time to 50.7 cents excluding abnormals, and from 69.7 cents to 54.8 cents if abnormals were included. Total operating revenue was 2.5 per cent higher at A$9.42bn.

The weakest performance came from the oil division, where operating profits (excluding abnormals) fell 24.4 per cent to A$198m. BHP blamed the downturn on "disappointing" results from the Dai Hung operation in Vietnam, lower sales volumes in Australia, and a smaller input from Hawaii.

Mr John Prescott, BHP's chief executive, confirmed that negotiations to win a more attractive tax regime for Dai Hung, were continuing.

BHP

Share price relative to the All Ordinaries Index



Source: FT Extel

On the steel side, earnings also fell, by 15.1 per cent to A$292m. This was blamed on the slowing Australian economy. The minerals division saw an 11.1 per cent increase in profits to A$540m because of higher iron ore shipments, increased copper concentrate production at the Ok Tedi mine in Papua New Guinea, and better prices for coal, iron and copper.

Income tax, excluding abnormals, rose A$98m, partly reflecting the higher Australian corporate tax rate.

Talisman braces its holdings for a North Sea storm

Bernard Simon and Robert Corzine analyse the Canadian energy group's offer for Goal Petroleum

Mr Jim Buckee, like many others in the oil and gas business, believes that the North Sea is on the verge of much the same frenzy of asset swaps, sales and mergers that have reshaped western Canada's energy industry in recent years.

If he is right, the 49-year-old chief executive of Calgary-based Talisman Energy should be well placed to take advantage of the wheeling and dealing. Talisman is not only a creature of the shake-up in Canada, but will hold a useful hand of cards in the North Sea if its proposed friendly takeover of Goal Petroleum goes through.

Talisman has offered £131m ($202m) for Goal. The UK company's biggest shareholder, Norwich Union, has irrevocably agreed to throw its 29 per cent stake behind the bid. Mercury Asset Management, with 16 per cent, will back Talisman unless a higher bid appears.

"We're in a very strong position, but the deal is not yet done," Mr Buckee said from Calgary, between flying home from London on Friday afternoon and leaving on Saturday for a family holiday in Australia.

Talisman's bid has again proved the popularity of the UK sector of the North Sea for international oil and gas companies, in spite of its maturity. Political stability and a fiscal regime that is among the best in the world are among the features most valued by North American companies with limited foreign experience.

Talisman, formerly BP Canada, has been one of western Canada's fastest-growing energy companies since the UK group unloaded its 57 per cent stake in a public offering in mid-1992. Market capitalisation has soared from C$530m to C$2.5bn (US$1.82bn), making Talisman one of Canada's biggest independent upstream oil and gas producers.

Goal would be Talisman's third sizeable takeover in as many years, following the acquisition of Encor, a mid-sized western Canadian producer, and last year's C$1.8bn purchase of Bow Valley Energy, in which British Gas had a 58 per cent interest.

The deals have left Talisman with a strong, diversified portfolio of properties, mainly in western Canada, Indonesia and the North Sea. Liquids production surged by 74 per cent in the first nine months of this year to 76,482 b/d. Gas volumes rose 46 per cent to 646m cubic ft a day.

But some analysts have cooled toward Talisman in the past year. The Bow Valley acquisition strained its back-office resources, such as accounting and land records.

Mr Buckee says: "There was a deliberate pause of a year while we sorted that out." The 1995 capital spending budget was trimmed from C$500m to C$400m. An entirely new accounting system was adopted on November 1.

'Before [the Goal deal], we didn't have enough chips to trade,' Mr Buckee says

Rapid growth has also increased Talisman's debt burden. Long-term debt stood at C$952m on Sept 30, and will rise to C$1.2bn after the Goal acquisition. The debt-to-cash-flow ratio will exceed 2.2, well above the industry average.

Mr Buckee aims to bring the ratio down to 2.18 with a number of asset sales, which are likely to begin early next year. The ratio should drop to about 1.5 in late-1997 when the Corridor gas project in Indonesia, in which Talisman has a 36 per cent working interest, comes on stream.

Meanwhile, a continuing rise in North American energy prices could ease the pressure. Mr Henry Cohen, analyst at ScotiaMcLeod in Toronto, recently restored Talisman to his list of "buy" recommendations. "It's not the best balance sheet, but not the worst in a rising commodity environment," he says. The Goal deal would give Talisman the critical mass it needs to trade assets effectively in the North Sea. "Before, we didn't have enough chips to trade," Mr Buckee says.

The two companies would have a combined North Sea production rate of almost 50,000 b/d oil equivalent, including natural gas, from more than 50 licences. But they have no operating positions. Talisman is especially keen to gain greater control of costs and production timing by becoming an operator.

Mr Buckee says North Sea asset sales are more likely to come from Talisman's portfolio than Goal's. "This is not a grab and break-up."

But if the Bow Valley acquisition is any guide, some blood may be spilled as Goal is brought under Talisman's wing. The Canadian company has replaced much of Bow Valley's North Sea management, and Mr Buckee has a reputation for liking things done his way.

CFF executives debate options for 40% cost cuts by 1998

By Andrew Jack in Paris

Crédit Foncier de France, the special French property bank, is preparing to cut its operating costs over the next two years by up to 40 per cent as part of a restructuring plan to help tackle its current financial difficulties.

The bank is also considering ways of narrowing the range of services it offers and concentrating on its core activities in the distribution of finance for low-income housing projects.

CFF would not comment on the implications for staff reductions, but it is thought the plan will almost inevitably lead to a cut of at least one third in the number of employees, which currently stands at about 3,600.

It may also be required to sell some of its property in central Paris to raise funds.

Bank officials said yesterday they were discussing possibilities, including reducing services to property developers, local authorities and lease financing activities.

They were also examining alternative areas of expansion for the bank, including developing its general banking services and property advisory and management expertise.

CFF was dealt a blow earlier this month when – in a highly unusual move – the Conseil des Bourses de Valeurs (CBV), the operator of the French stock market, came out against the bank's plans to merge with one of its subsidiaries.

The plan would have boosted the bank's balance sheet by FFr1bn ($201m) but the CBV called for shareholders in Société des Immeubles de France, the 55 per cent-controlled subsidiary, to have the right of a cash alternative to CFF's shares. CFF instead decided to withdraw its offer. CFF made profits for the first six months of the year of FFr12m.

NEWS DIGEST

Inn on the Park stake acquired

A 50 per cent stake in the Four Seasons Inn on the Park hotel, London, has been bought for £30m by Prince Al-Waleed Bin Talal Abdulaziz, the Saudi investor, writes Ralph Atkins.

Prince Al-Waleed is already a 26 per cent shareholder in Toronto-based Four Seasons Hotels. He was also part of a syndicate of investors, led by Mr Paul Reichmann, who earlier this year bought Canary Wharf, the large office development in London's Docklands. He has also helped the restructuring at Euro Disney.

The stake in the Four Seasons hotel in London had been for sale since late 1993. Its disposal is part of a previously announced programme of sales by the group which has also disposed of its interest in the Four Seasons Biltmore Resort, Santa Barbara.

Expamet provisions

Expamet International, which is in the process of withdrawing from the electronics security sector with the sale of its Radionics business, has announced provisions of £28.4m to cover the expected gap between the sale and book value.

The company is now applying to cancel its share premium account to help absorb the expected losses from the Radionics sale and to permit the payment of dividends out of future profits, sooner than would otherwise be possible.

Chemex rises 68%

Chemex International, the chemical and environmental analysis company, reported pre-tax profits 68 per cent ahead at £227,000 for the year to September 30, against £136,000.

Mr Brian Webbe, chairman, said that the market was highly competitive but the first two months of the present year showed that progress could be continued.

Turnover was ahead at £1.64m (£1.59m). Earnings per share came out at 0.56p (0.33p) and a single final payment of 0.15p (0.1p) is proposed.

BDA acquisition

BDA Holdings is poised to become the property sector's only UK quoted specialist retail warehouse developer and investor following its acquisition of Edge Properties for up to £10.2m.

BDA is offering an initial £5.77m through the issue of 6.79m new shares, with a further payment to a maximum £4.37m also in shares. A placing and open offer will raise £5m through the issue of 5.88m new shares at 85p each, on a 13-for-40 basis. There is also a 1-for-5 share consolidation.

Edge has an investment portfolio valued at £13.8m.

Conrad Ritblat

Conrad Ritblat Group, the chartered surveyor and property consultant, is acquiring Colliers Erdman Lewis, a firm of consultant surveyors and valuers, from the receiver for £400,000 cash.

It is also acquiring a portfolio of nine commercial properties from Royal Bank of Scotland for £9.9m. The group also proposes to consolidate every 10 existing shares of 10p into one 100p share.

Meconic advances

Meconic, the manufacturer of fine chemicals, which floated on the main market in June, pushed pre-tax profits up from £1.8m to £2.45m for the six months to November 3.

Sales rose 15 per cent to £16.6m. The dividend is 1.65p from earnings of 5p (3.79p).

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Investor Consortium (Int'l)	Belgacom (Belgium)	Telecoms	£1.6bn	Ameritech leads bid winner
Entergy Corp (US)	Citipower (Australia)	Power	£44m	Victoria sells 5th distributor
Tomkins (UK)	Gates Rubber (US)	Rubber components	est £650m	Preferred merger candidate
L'Oréal (France)	Maybelline (US)	Cosmetics	£428m	Exit for Wasserstein Perella
Stet (Italy)	Svyazinvest (Russia)	Telecoms	£411m	25% stake agreed
Enersis (Chile)	Edesur (Argentina)	Power	£253m	Buying gov'ts 39%
Cultor (Finland)	Pfizer Food Service (US)	Food	£223m	Pfizer focusing on hlthcare
Williams Holdings (UK)	Dual Spectrum (US)	Protection systems	£10.5m	Buy for Kidde
Talisman Energy (Canada)	Goal Petroleum (UK)	Oil	£131m	Agreed cash offer
Bristol-Myers Squibb (US)	Pharmavit (Hungary)	Pharmaceuticals	n/a	Recommended cash offer

COMPANIES AND FINANCE

Normandy merger proposals find favour

By Nikki Tait in Sydney

Normandy, the Australian mining company run by Mr Robert Champion de Crespigny, gained a favourable stock market reception when it published the terms of its proposed A$3bn (US$2.23bn) four-way merger, on Friday.

This would see PosGold, the gold producer in which Normandy holds a 50.1 per cent interest, North Flinders Mines, in which PosGold holds a 49 per cent stake, and Gold Mines of Kalgoorlie, which is 31.3 per cent controlled by PosGold, all merged into Normandy by way of paper exchange offers for the outstanding interests.

The deal had already been outlined, but the exchange terms could not be announced until an independent valuation by Grant Samuel had been completed.

The terms are 157 Normandy shares for every 100 PosGold shares; 71 Normandy shares for every 100 GMK shares; and 425 Normandy shares for every 100 North Flinders shares. Investors in North Flinders also have the choice of taking only 300 Normandy shares plus 100 "Tanami options" for every 100 North Flinders shares.

The innovative Tanami options, which will be listed, give holders the right to acquire one Normandy share for each 1m ounces of gold discovered on North Flinders exploration tenements (other than the Granites and Dead Bullock Soak leases), at fairly nominal price. The exercise date is end-March 2000.

Grant Samuel claims the deal should lead to a re-rating of Normandy shares of at least 20 per cent, as investors warm to a simplified group structure. Boards of the three other companies, however, will now take independent advice on the Grant Samuel terms, before making recommendations to shareholders.

However, the market warmed to the terms, pushing PosGold shares 15 cents higher, at A$2.67, and North Flinders 30 cents higher at A$7.60. Normandy gained 2 cents, to A$1.90, while GMK was unchanged at A$1.27.

US buy 'raises Dresdner Bank's profile'

By Andrew Fisher in Frankfurt

Dresdner Bank plans to build up a leading position in US and global asset management through its $300m purchase of RCM Capital Management of the US, Mr Gerhard Eberstadt, a Dresdner director, said.

The bank said the acquisition, agreed last week, would make it Europe's sixth-largest asset management group, with total funds under management of $170bn. RCM, previously owned by Travelers Group of New York, will comprise $26bn of this. Ahead are the three big Swiss banks, followed by Germany's Allianz insurance group and Deutsche Bank.

Mr Eberstadt said Dresdner, Germany's second-biggest bank, was still seen mainly as a D-Mark investment specialist by big international investors, in spite of its activities in Asia and the US. It owns Oechsle, a Boston-based firm which specialises in foreign investments for US clients, and Thornton Investment Management, based in the UK and active in south-east Asia.

"We want to close this gap," he said. "We are not yet accepted as a global asset manager like the big US houses." Dresdner had sought a US acquisition in this field for some time and came across San Francisco-based RCM in April, Mr Eberstadt said. It had faced strong competition from US and European banks to buy RCM. Dresdner was advised by J.P. Morgan.

Mr Eberstadt said Dresdner had streamlined its asset management activities to become more competitive, with its European business expected to grow by about 15 per cent a year. The RCM deal follows this year's purchase of Kleinwort Benson, the UK merchant bank, for DM2bn ($1.39bn).

The volume of assets under management at RCM, up by 19 per cent in 1995, was expected to rise about 13 per cent a year up to 2000, he said. It made a pre-tax profits last year of $49m and had also done well in 1995. Thus Dresdner would achieve an immediate return on investment of more than its overall target of 12 per cent.

No capital increase was planned to pay for the buy.

He said that, unlike the failed purchase by Bayerische Vereinsbank of Oppenheimer Group, the US brokerage, asset management and investment banking house, Dresdner's deal should encounter no problems with the US Federal Reserve. This is because RCM is only involved in asset management.

RCM's pension fund customers include AT&T, Coca-Cola, Chevron, Boeing and Monsanto. Pension funds account for 40 per cent of its business.

French privatisations an uphill task

It was a close call, but Pechiney squeaked into the private sector. Final results announced last Friday revealed that France's aluminium and packaging giant had garnered sufficient demand from investors in spite of adverse market conditions and a political crisis which has rattled investor confidence.

However, any relief in the corridors of France's finance ministry will be marred by lingering concerns. Pechiney's sale demonstrates it has become more difficult to dispatch France's public sector assets. With Mr Jean Arthuis, finance minister, predicting FFr40bn ($8bn) of privatisation receipts next year – double this year's tally – the latest operation suggests he will face a tough task in reaching his objectives.

"They got it away," says one banker involved in previous privatisations. "But the enduring lesson is that privatisations have become an uphill task."

In spite of a cheap price of FFr187 a share, Pechiney's privatisation drew only 470,000 individual investors, little more than half the number for the summer sale of Usinor Sacilor, the steel group, and a fraction of the 2.8m who snapped up shares in Banque Nationale de Paris in 1993 when the campaign began.

Jean Arthuis: receipts to grow

Institutional investors, who have previously subscribed for more than 10 times the available shares, barely covered the supply this time. That was in spite of the decision to almost halve their allocation to about 13m shares as the government cut a planned capital increase for Pechiney from FFr4bn to FFr2.4bn and bowed to evidence of weak demand.

The lacklustre performance is easily explained. Investor ardour was cooled by the cyclical downturn in the aluminium market; the complexity of the operation, which involved a merger between Pechiney and Pechiney International; the separately quoted packaging arm; and the fact that the group was in loss as recently as 1994.

However, there were general considerations behind the poor show which are relevant to future issues. Most important, private and institutional investors have become disenchanted by the performance of French privatisation stocks.

All but two of the issues since 1993 are trading below their offer price, some significantly. Usinor shares, for example, are trading at about FFr63, compared with their summer issue price of FFr86. Pechiney's shares are also vulnerable because of the French government's plans to sell the 9 per cent stake it was forced to retain in the company after scaling back the sale.

At the same time, French privatisations have had to compete with a growing number of international offerings, and there is little prospect of a let-up.

Mr Arthuis and his officials have some grounds for optimism. The Paris stock market is enjoying a rally as a protracted strike against the government's austerity policies appears to be crumbling. The Bank of France has resumed its policy of gradual monetary easing, raising hopes that the rally on the bourse can last.

Mr Arthuis is further hoping to stimulate market sentiment through fiscal and savings reforms. "Our tax system must favour long-term investments directed towards shares," he says, hinting at incentives for retirement funds next year.

Should market conditions improve, there are several candidates for sale. Renault, the motor group, appears to be in pole position, having floated last year. Mr Arthuis also cites the two insurers, AGF and Caisse Nationale de Prévoyance, as candidates.

"We already have several smaller operations under way," he says. These include last week's news that Crédit National is making a FFr3.4bn cash offer for BFCE, the state-owned banking group.

Beyond that, however, the choices are more difficult. Many of the remaining companies in the public sector, in particular those big enough to make a significant contribution to the state coffers, need time to get into shape.

Air France and Crédit Lyonnais are in the midst of restructuring plans after incurring heavy losses, while Thomson, the electronics concern, awaits delicate decisions about whether to restructure its consumer and defence electronics activities. More sensitive, although potentially lucrative, would be a sale of a stake in France Télécom – a politically explosive issue given the opposition of trade unions.

The government believes that time is on its side. "We will not flog off state assets below their value," says one finance official. "We don't face the same budgetary pressure as the previous government," he adds, referring to the decision to put privatisation receipts into the national capital accounts rather than using them to fund current spending.

Such a stance may prove necessary. After the battering investors have taken with France's recent privatisation issues, it is likely to take time to regain their confidence.

John Ridding

Michelin to unveil plans for revamp

Michelin, the world's biggest tyre producer said it was studying a reorganisation and expected to announce measures in early 1996, Reuter reports from Paris.

The company did not elaborate, but described as incorrect an item in the French magazine Le Nouvel Economiste which said the group was expected to announce major redundancies as part of a restructuring on January 15.

The article said management ranks would also be shaken up to allow the heir-apparent, Mr Edouard Michelin, to put his stamp on the company. He is the son of the managing partner, Mr Francois Michelin, 69.

Michelin said an internal study of the group initiated by the three managing partners aimed to define ways to improve its performance and profitability.

Michelin's stock fell FFr5.10 to FFr190.80 in Paris on Friday as traders speculated that the study had been prompted by concerns about the outlook for the tyre business given slowing economic growth in much of Europe.

Analysts said technological innovations in the tyre industry and automated production processes meant Michelin, which employs 110,000 people worldwide, was probably overstaffed.

The company, based in the town of Clermont-Ferrand, returned to profit last year, earning FFr1.29bn ($259m). It has 18 per cent of of the world tyre market.

NEWS DIGEST

Mediobanca appeals to higher authority

Mediobanca, the Italian merchant bank, has lodged a further appeal over the need for it to launch a public buy offer for Ferruzzi Finanziaria (Ferfin), the holding company. Meanwhile, Ferfin shares have been suspended on the Milan bourse. The Milan-based bank lodged its appeal with the Italian higher court of the State Council after its first appeal with the regional court of Lazio was thrown out last Wednesday. The State Council is expected to meet on December 22 to discuss the appeal.

Ferruzzi shares were suspended at L1,056 on Friday, the first day of the company's L953bn ($597m) rights issue, pending clarification from Mediobanca on the terms for its public buy offer for Ferfin.

Consob, the stock market watchdog, ruled that only Ferfin shareholders on the group's share register before the company launched its rights issue could participate in Mediobanca's public buy offer, and not those holding only the new rights issue shares. *Reuter, Milan*

Crédit Agricole targets Idia

Crédit Agricole, the French banking group, has announced a FFr1bn ($201m) friendly takeover bid for the Institut de Développement des Industries Agricoles et Agroalimentaires (Idia), the quoted venture capital group. The *caisse nationale* of Crédit Agricole, representing its different regional banking organisations around France, made an offer of FFr200 each for the outstanding shares in the group.

Crédit Agricole already owns 26.5 per cent of Idia, which was created in 1980 and has been quoted since 1987 in the SBF 250 index of the top 250 French companies. *Andrew Jack, Paris*

Kvaerner urges bid acceptance

Kvaerner, the Norwegian shipbuilding and engineering group, yesterday made a final appeal to Amec shareholders to accept its £360m ($554m) hostile bid. The 100p a share offer closes at 1pm today. Amec, the UK construction and engineering group, said the bid undervalued its profits recovery potential.

Mr Erik Tonseth, Kvaerner chief executive, said Amec had failed to keep previous promises and was "begging shareholders for one last chance, one more throw of the dice. Shareholders should remember that since its 1991 rights issue Amec has generated average annual losses for ordinary shareholders of £18m."

Amec said Kvaerner was trying to buy the company cheaply when it was poised for a profits revival having overcome recent problem contracts and achieved a cost-saving labour productivity deal at its Newcastle oil and gas fabrication yard. *Andrew Taylor, Construction Correspondent*

Ciba refocusing continues

Ciba, the Swiss chemicals and pharmaceuticals group is hiving off its leather and fur chemicals business to a 50-50 joint venture with the German Hüls chemicals group. This is the latest in a series of significant moves by Ciba aimed at strengthening its focus on its healthcare businesses.

Ciba said the new leather and fur chemicals joint venture, to be set up with Hüls subsidiaries Röhm of Darmstadt and Stockhausen of Krefeld, would be called TFL Ledertechnik. Its 1996 sales were expected to reach DM350m ($242.6m). In the initial stage, the venture would be responsible for research and development, sales and distribution. The founding companies would retain direct control of production. Ciba's sales of leather and fur chemicals last year amounted to SFr165m ($141.7m), compared with overall group sales of SFr22bn. *Reuter, Zurich*

FINANCIAL TIMES MARKETS THIS WEEK

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Global Investor / John Plender

Still riding the US bull market

At the end of a year in which US equities demonstrated astonishing upward momentum, non-American investors are acknowledged to have got Wall Street wrong. What makes this doubly galling for them is that so many Americans appear to have got it right for the wrong reasons.

The great productivity miracle was the best bullish story of 1995. Yet the notion that US industry has achieved a secular break-through in productivity, while not implausible, remains a hypothesis. There are simpler and more readily verifiable explanations for much of the upsurge in prices.

The one thing that was genuinely difficult to predict at the start of the year was a build-up of excess inventory. The widespread failure to detect this was excusable. Industrialists do oot spend their time telling analysts that they expect to accumulate excess inventory. If it were predictable, it would never happen.

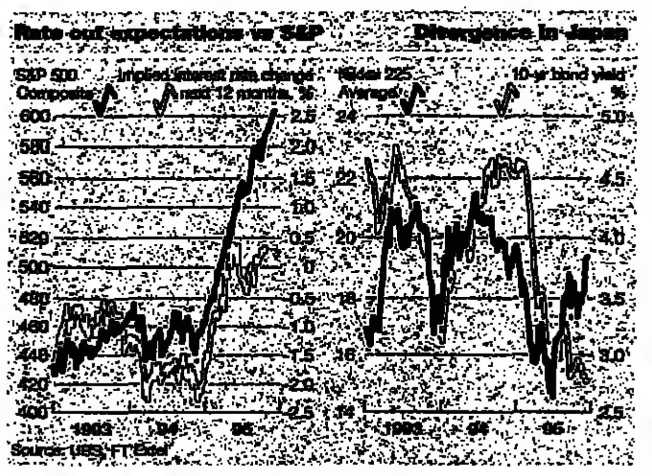
Against a background of extremely rapid growth in the final quarter of last year, it was thus understandable that so many people were putting money on a further increase in interest rates that, in the event, failed to materialise.

The first chart provides as good an explanation as any of why Wall Street behaved as it did in 1995. It shows the difference between today's interest rates and the futures market's expectations of rates in 12 months time, plotted against the S&P index.

The falling line in the final quarter of 1994 portrays the coovictioo that the Federal Reserve would further tighten monetary policy, as the markets sensed that the economy was growing at well above trend growth. The story in the first half of 1995 is then one of dramatic changes in interest rate expectations as investors got wind of the inventory-induced slow-down.

The markets' expectations were validated in July when the Federal Reserve reversed policy with its quarter point cut in the federal funds rate. By this time the adjustment in expectations was largely complete.

The bond market, meantime, was pushing in the same direction. By December a large valuation adjustment had taken government bond yields back to within striking distance of their level before the 1994 bond market crash. This process was encouraged by the Japanese, who were flooding global markets with liquidity in their efforts to prop up the Japanese banking system. The story of miraculous productivity was thus floating on a very powerful monetary tide.



Total return in local currency to 15/12/95

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.00	0.08	0.11	0.20	0.13
Month	0.46	0.04	0.34	0.53	0.88	0.58
Year	7.63	2.63	5.59	6.31	9.94	7.38
Bonds 3-5 year						
Week	0.08	0.03	0.63	0.25	0.24	0.38
Month	0.97	0.61	1.36	1.77	1.78	2.17
Year	15.09	13.58	15.64	14.23	16.49	14.93
Bonds 7-10 year						
Week	-0.02	-0.14	-0.42	0.57	-0.27	0.44
Month	1.67	0.99	2.27	2.57	2.82	3.19
Year	21.34	17.20	18.23	17.22	18.85	17.25
Equities						
Week	-0.1	0.1	1.0	1.1	2.0	0.8
Month	4.3	8.7	4.5	1.7	2.5	3.6
Year	38.6	-4.2	12.5	1.7	-3.7	27.1

Source: Cash & Bonds – Lehman Brothers. Equities – NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

In a well reasoned attempt to establish whether US equity investors are in the grip of an investment mania, a study from the Montreal-based Bank Credit Analyst argues that the time to bale out of great bull markets is when trusted investment yardsticks are discarded on the basis that a 'new era' has begun.

It highlights four potential examples of this: the historically low level of dividend yields; the rise in the number of bond and equity mutual funds from less than 1,100 to 4,600 over the past decade; the 'new industrial revolntion' story that has caused technology stocks to soar; and the Federal Reserve's adept management of the business cycle, which is taken to mean that investors need not fear big swings in economic activity and inflation.

The stndy nonetheless argues that while there is plenty of froth around the edges of the bull market, it is too early to conclude that the game is up.

This is hard to argue with. Bull markets usually come to an end when they confront tighter monetary policy; and one definition of a market mania is when prices levitate *after* policy has started to tighten. This is clearly not the case today, when many in the market are still hoping for a further fall in short-term dollar interest rates. And on the question of equity valuation, it is possible to argue that while dividend yields are low, price earnings mnltiples are in historically unexceptionable territory.

This points to corrections rather than crashes. But eo much in today's markets is riding on successful fiscal consolidation that any serious upset on the path towards a balanced US budget could prove nasty. A lesson of the 1994 bond market crash was that the degree of leverage in today's markets is greater than it looks. The importance of the bond market's rise in equity valuation this year suggests that equities may be more vulnerable to a bond market shake-out than they were last year.

Where will foreign investors go wrong in 1996? Quite possibly in Japan. In a market which frequently departs from fundamental yardsticks of valuation, there are a number of potential tank traps. Estimates of the true Japanese budget deficit after adjusting for the eccentricities of the Japanese budgetary process range up to an Italian-style 8 per cent of GDP. Yet 10-year bond yields are at rock bottom levels of about 2.6 per cent.

The second chart, from UBS Global Research, demonstrates that a longstanding negative correlation between stocks and bond yields has broken down, reflecting official intervention to liquify the financial system through purchases of government bonds. The equity market is thus supported by an artificially low level of bond yields. Given that Japanese equities are still overvalued by global standards, the scope for upsets, if there were any hiatus in the government support operation, is considerable. It is worth recalling, incidentally, that Japanese bonds halved in valne in the six months to October 1987 when the rest of the world was obsessed with the path of equities.

Ths larger question for investors in Tokyo is how long it will take for equities to shift from stakeholder-inflnsnced valuations to US-style valuations. A smooth transition would be quite as *miraculous* as a US productivity improvement that turned out to be secular rather than cyclical.

COMMODITIES

Richard Mooney

Cocoa curbs in spotlight

The International Cocoa Organisation makes another attempt this week to bridge its production management plan's credibility gap.

Representatives of some delegations, including producers, told the Reuters news agency last week that they planned to maintain pressure on producers to take serious action under the plan.

The aim is to cut production by 375,000 tonnes by the end of the decade in an attempt to bolster cocoa prices, but critics claim that unrealistic outpnt projections in the first two years of the plan meant that little in the way of real production constraint was required of producers.

In the antumn of 1994 the producers projected their output for the 1994-95 season at 2.48m tonnes; but consumer members of the ICCO argued that the figure was deliberately set too high.

Mr Hagen Streichert, bead of the German ICCO delegation said before the last ICCO meeting in September: "We don't want a repetition of the performance from last year when we ended up with dream figures".

And some producers delegates agree. "Our strategy would be to keep this in the spotlight until the March meeting [of the full ICCO council]," one told Reuters last week. "This mechanism has never been put to the test. To be fair it is not being put to the test because it has not left the paper yet. Countries are not applying it."

Another contentious issue before the ICCO delegates this week is the European Commission's draft chocolate directive, which would allow Britain, Ireland, Denmark, Portugal, Austria, Sweden and Finland to continue using non-cocoa fats in chocolate. Prodncers maintain the chocolate should be made with 100 per cent cocoa fat.

The commission is to discuss the draft on Wednesday.

This week's ICCO meeting could also see pressure for the organisation to begin considering the future shape of its budget in the absence of revenues from buffer stock sales.

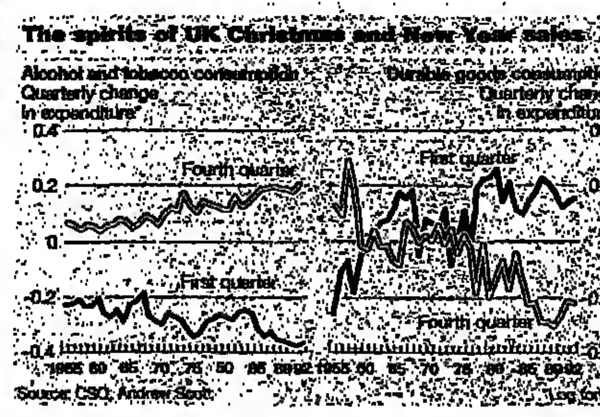
Economics Notebook

Yuletide economics

The average economist is like the Grinch in the Dr Seuss story who tried to steal Christmas. The snrge in spending that occurs over the Christmas and new year sales period may be the lifeblood of the retailing industry, but for economists it is an annoying "seasonal fluctuation" which they will do all they can to adjust out of the statistics.

At first glance, this policy of avoidance seems eminently sensible. Christmas, after all, comes once a year, at the same time. Macroeconomic forecasters would be even more wildly ont with their predictions for next year's growth if they made no effort to distinguish recent seasonal swings in consumption and output from authentic cyclical movements.

Over the longer term, however, a recent paper* by Andrew Scott, of Oxford University suggests that ignoring Christmas and other, equally "predictable", seasonal trends could be a mistaks. First because their economic effects can change dramatically over time, witb eignificant knock-on effects for the structure and size of different Indnstries. And second, becanse analysing the long-term dynamics of Christmas might allow a better undsrstanding of the long-term dynamics of the economy as a whole.



The first graph shows how seasonal consumption of alcohol and tobacco has increased over the last forty years. In the early 1960s, sales in the fourth quarter were only likely to be about 4 per cent higher than in the previous three months, with consumption generally falling by about 25 per cent in the following qnarter. Yet, by the early 1990s, fourth quarter sales of this category of goods were some 20 per cent higher than in the third quarter, followed by a slump of more than 30 per cent in the new year's resolution period.

As Mr Scott points out, the sheer size of the figures involved makes seasonal variations worth studying in their own right. Between 1960 and 1994 the seasonal Christmas boost to consumption in the fourth quarter rose from £1.6bn to nearly £4bn in 1990 prices. This implies a rise in expenditure of some £67 per head of the population, solely attributable to a rise in the demand for Christmas.

Economists would not havs to fret unduly about shifts in seasonal demand patterns if they could explain them. The trouble is it is difficult to pin the long-term rise in yuletide spending on any of the usual economic suspects. As Mr Scott notes, economists tend to expect individual consumption to be closely related to changes in income, but the seasonal effects on household income are generally rather small, and have, in fact, been falling in recent years.

A changing, seasonal, pattern in interest rate movements would be another economic explanation for the rise of Christmas. Chancellors might have become increasingly reluctant to raise interest rates in the months leading up to Christmas, out of fear of all those "Scrooge" headlines.

Yet Mr Scott finds that, while there has indeed been a slight seasonal pattern in interest rate movements over the past thirty or forty years, it ought to have worked to lower Christmas consumption, not raise it. On average, interest rates have tended to be higher in the second half of the year, possibly becanse spring or early autumn elections are more common than winter ones.

Predictably, perhaps, the anthor finds that he can only explain this shift by stepping outside economics, to look at changes in social customs. As he notes, the traditional Christmas was actually quite a recent invention, traceable to two key events in the 19th century. First, ths publication of Charles Dickens' Christmas Carol in 1843, which made celebrating Christmas fashionable after centuries of decline.

Second, and more important, from an economic standpoint, was the extension of present-giving to adults from 1870 onwards. This effectively opened ths way for every branch of retail trade to get a boost ont of Christmas, not merely those in selected food and drink industries.

Mr Scott thinks that a range of cultural developments have been working to enhance further the season's significance since the war. Take the invention of new year sales. In the mid-1950s, durable goods sales would typically pick up sharply in the fourth quarter, and then fall off in the first three months of the year. Today, as the second graph shows, the pattern has been completely reversed, with sales falling in the fourth quarter, then rising smartly in ths bargain-filled first quarter.

You might say that Mr Scott had merely re-stated what would seem obvious to non-economists: that Christmas is getting bigger – and earlier – every year. But one can also draw a broader lesson from his findings. This is becanse the rise of Christmas and new year is an example of an important economic change, which the most sophisticated economic model would have entirely failed to predict, still less explain.

It is at least plausible that there are similar gaps in economists' understanding of other, non-seasonal, economic variations. The spirit of Christmas might hold lessons for understanding the broader Keynesian "animal spirits" at work in the economy, or their modern variant, the dreaded feelgood factor. Who knows; if Mr Clarke took time to ponder why consumers keep voting for Christmas, he might learn something about how to get them to keep voting for the Conservatives.

**Why is Consumption so Seasonal?, October 1995.*

Stephanie Flanders

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS — FRIDAY DECEMBER 15 1995

Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield
Australia (81)	190.61	11.1	183.56	123.03	142.96	170.86	16.1	3.91
Austria (26)	172.39	-5.7	166.02	111.27	129.29	129.22	-12.2	1.51
Belgium (34)	206.15	22.4	198.57	133.08	154.63	150.86	14.1	3.47
Brazil (28)	135.33	-17.1	130.34	87.35	101.50	240.93	-5.3	1.83
Canada (101)	146.27	13.1	140.87	94.41	109.70	145.73	10.9	2.56
Denmark (33)	286.61	13.8	276.03	184.99	214.96	218.04	4.6	1.50
Finland (25)	177.96	-4.3	171.39	114.87	133.47	162.10	-12.4	1.98
France (100)	175.70	7.4	169.22	113.41	131.77	136.80	-0.1	3.21
Germany (59)	163.15	13.9	157.17	105.34	122.39	122.39	6.0	1.97
Hong Kong (56)	377.37	15.7	363.44	243.57	283.03	374.74	15.7	3.90
Ireland (16)	254.40	23.4	245.01	164.20	190.80	225.51	19.9	3.40
Italy (59)	72.30	-4.0	69.63	46.66	54.22	88.15	-5.6	1.70
Japan (483)	151.89	-3.2	146.29	98.04	113.92	98.04	-0.5	0.78
Malaysia (106)	484.33	1.0	466.46	312.62	363.25	474.63	0.7	1.74
Mexico (18)	980.84	-30.7	944.63	633.08	735.62	6337.86	9.3	1.67
Netherland (19)	266.96	23.1	257.11	172.31	200.22	195.86	14.6	3.32
New Zealand (14)	77.77	10.4	74.90	50.20	58.33	53.33	8.4	4.58
Norway (33)	227.47	6.7	219.08	146.82	170.50	196.72	0.6	2.13
Singapore (44)	399.32	7.0	384.58	257.74	299.49	260.66	4.0	1.56
South Africa (45)	384.72	14.3	370.52	248.32	288.54	308.27	2.8	3.84
Spain (38)	160.42	21.5	154.49	103.54	120.31	148.45	13.6	3.92
Sweden (47)	303.15	31.2	291.99	195.69	227.39	297.11	16.8	2.02
Switzerland (40)	232.04	40.5	223.47	149.77	174.02	167.40	24.9	1.59
Thailand (46)	164.96	4.3	158.87	106.47	123.72	161.08	4.5	2.52
United Kingdom (206)	225.61	15.8	217.28	145.62	169.21	217.28	17.7	4.04
USA (638)	250.98	33.7	241.71	161.99	188.23	250.98	33.7	2.23
Americas (785)	228.52	31.2	220.08	147.50	171.39	192.14	31.8	2.24
Europe (735)	197.15	16.7	189.87	127.25	147.58	168.27	11.7	3.04
Nordic (138)	268.58	19.6	258.66	173.35	201.43	228.04	8.3	1.83
Pacific Basin (831)	162.20	-1.3	156.22	104.70	121.65	108.44	0.5	1.21
Euro-Pacific (1566)	176.66	6.3	170.14	114.03	132.49	131.15	6.0	2.09
North America (739)	244.52	32.8	235.50	157.83	183.39	243.94	32.7	2.24
Europe Ex. UK (529)	177.39	17.2	170.85	114.50	133.04	141.45	8.4	2.47
Pacific Ex. Japan (348)	261.29	8.7	251.64	168.65	195.97	230.58	10.6	3.21
World Ex. US (1758)	177.60	6.2	171.04	114.63	133.20	134.87	5.0	2.11
World Ex. UK (2190)	197.58	15.6	190.28	127.53	148.15	163.48	14.3	1.97
World Ex. Japan (1913)	227.19	23.7	218.81	146.64	170.39	213.07	21.9	2.60
The World Index (2396)	200.06	15.6	192.67	129.13	150.04	168.26	14.7	2.15

THURSDAY DECEMBER 14 1995 — DOLLAR INDEX

Figures in parentheses show number of lines of stock	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (81)	190.42	183.42	122.15	142.74	171.15	191.86	157.95	171.59
Austria (26)	173.04	166.68	111.00	129.70	128.69	199.28	167.48	175.58
Belgium (34)	206.26	198.68	132.32	154.61	150.82	206.26	165.22	165.23
Brazil (28)	135.42	130.44	86.87	101.51	240.99	180.75	86.06	176.24
Canada (101)	146.74	141.34	94.13	109.99	146.04	150.83	121.81	127.54
Denmark (33)	288.69	278.06	185.20	216.40	219.43	295.99	236.61	239.97
Finland (25)	198.62	191.31	127.41	148.88	180.58	276.11	171.13	176.37
France (100)	176.47	169.98	113.21	132.28	137.65	191.17	157.79	164.16
Germany (59)	163.72	157.71	105.03	122.72	122.72	167.74	137.69	137.69
Hong Kong (56)	379.88	365.92	243.69	284.75	377.24	389.39	277.40	329.65
Ireland (16)	254.59	245.23	163.32	190.84	225.71	260.87	165.60	195.60
Italy (59)	70.27	67.68	45.08	52.67	84.02	82.71	65.45	69.65
Japan (483)	153.58	147.94	98.52	115.13	98.62	164.62	136.95	151.60
Malaysia (106)	489.02	471.05	313.71	366.57	478.62	561.96	398.15	465.14
Mexico (18)	936.49	902.06	600.76	701.97	6001.65	1940.25	647.81	1948.25
Netherland (19)	268.72	258.85	172.39	201.43	197.92	268.72	210.34	210.34
New Zealand (14)	78.36	75.46	50.27	58.74	63.73	85.49	69.74	71.22
Norway (33)	229.74	221.29	147.38	172.21	198.46	243.79	201.65	201.65
Singapore (44)	398.78	384.12	255.82	298.92	260.27	414.28	313.94	382.48
South Africa (45)	386.50	372.29	247.94	289.71	309.74	392.04	281.06	324.13
Spain (38)	159.70	153.83	102.45	119.71	148.45	160.51	124.10	137.31
Sweden (47)	304.77	293.57	195.51	228.45	300.38	321.99	226.76	228.09
Switzerland (40)	230.62	222.15	147.95	172.87	166.57	232.04	160.28	160.87
Thailand (46)	164.46	158.42	105.50	123.28	160.47	184.55	150.15	160.37
United Kingdom (206)	227.17	216.82	145.73	170.28	218.82	228.33	186.63	186.63
USA (638)	251.30	242.06	161.21	188.37	251.30	253.50	186.38	186.38
Americas (785)	228.74	220.33	146.74	171.46	192.33	230.76	173.81	174.65
Europe (735)	197.82	190.55	126.90	148.28	168.93	199.02	164.47	164.47
Nordic (138)	274.09	264.01	175.83	205.45	233.37	295.02	218.60	217.74
Pacific Basin (831)	163.80	157.78	105.09	122.78	108.96	171.87	145.93	159.38
Euro-Pacific (1566)	177.87	171.33	114.10	133.32	131.71	178.33	154.73	161.42
North America (739)	244.85	235.84	157.07	183.53	244.25	246.93	182.73	182.73
Europe Ex. UK (529)	177.54	171.11	113.96	133.15	141.75	179.46	147.80	147.80
Pacific Ex. Japan (348)	262.31	252.67	168.27	196.63	231.58	266.72	211.19	236.47
World Ex. US (1758)	178.73	172.16	114.66	133.97	135.42	178.73	155.42	163.29
World Ex. UK (2190)	198.35	191.06	127.25	148.68	163.87	196.37	163.46	168.10
World Ex. Japan (1913)	227.66	219.29	146.04	170.65	213.55	228.26	181.50	181.50
The World Index (2396)	200.90	193.52	128.68	150.59	168.74	200.90	165.92	168.92

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.84 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 15/12/95: Deletions: BTR Nylex (Australia), Scott Paper (USA), Societe Generale De Belgique (VVPR) (Belgium) (following conversion into ordinary stock) and Veitscher Magnesit (Austria).

هكذا من الأصل

EMERGING MARKETS

After a difficult year among the Latin American financial markets FT correspondents in the region's leading centres look back on 1995 and preview expectations for 1996

Gloom shrouds Mexico

By Leslie Crawford in Mexico City

Mexicans have begun to realise, with an impending sense of gloom, that the recession and financial uncertainty that plagued them this year will continue in 1996.

A weak banking sector, dwindling personal incomes, and the prospect of continued high interest rates are expected to impair Mexico's ability to stage a rapid economic recovery. Even if the economy were to live up to the government's wildest dreams and grow by 3 per cent next year – a feat most private-sector analysts think unlikely – it would still not have recovered ground lost in 1995. According to government forecasts, the economy will contract by between 6.5 and 7 per cent this year.

If there is little consensus on Mexico's ability to achieve growth, there is even less agreement on the likely behaviour of its erratic interest rates, inflation, or the value of its volatile currency.

According to the Bank of Mexico's 1996 monetary programme, the government will aim to bring annual inflation down from 52 to 20.5 per cent by end-1996. The central bank estimates the value of the peso, which has been floating for most of this year, will average 7.7 against the dollar in 1996.

The official targets have not found much credence with economic consultants in Mexico City, or emerging market fund managers abroad.

In Mexico, private-sector forecasts for economic growth in 1996 range from 0.9 to 2.8 per cent. The most conservative estimates of inflation start at 28 per cent, while the best educated guesses about the peso's behaviour place it at about 8 to the dollar.

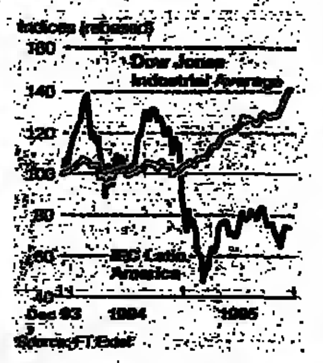
"There is no broker consensus regarding the level of the peso next year," says Mr Mark Smith, a strategist with World Invest in London. "The lack of predictability makes us uncomfortable, because our investors are looking for dollar returns."

"It will be difficult for foreigners to make money on the Mexican stock exchange next year," predicts Mr Geoffrey Dennis, director of Latin American Equity Research at Bear Stearns. "The weak currency will continue to depress dollar earnings."

Mr Dennis is forecasting an average exchange rate of 10.1 pesos to the dollar for 1996. He is also pessimistic on the government's chances of lowering inflation. "It takes at least two years for the effects of a devaluation to feed through domestic prices," he argues.

Mexican brokerage houses are not expecting an early return of the foreign portfolio investors who took flight after the botched devaluation of the peso last December.

Latin America



Source: FT Extel

Preliminary balance of payments figures show almost $4bn left the Bolsa in the first half of 1995. The departure of foreign investors contributed to the collapse in stock prices, which lost 50 per cent of their dollar-adjusted value in 1995.

Bear Stearns is predicting a modest rise of 10 per cent (in dollar terms) for the Bolsa in 1996. It is not alone in believing other stock markets in the region will offer better rewards.

Guarded optimism bolsters Argentina

By David Pilling in Buenos Aires

Most Argentines would prefer to forget 1995. The best that can be said is that the country's fixed-exchange rate and currency board system survived, despite the dire predictions of many analysts that Argentina would follow Mexico down the thorny path of devaluation.

The price paid for survival was recession. This month, officials finally admitted that GDP would drop 2.5 per cent this year. The damage was done in March when Argentines sent $8bn – or 15 per cent of total deposits – abroad, causing a severe credit crunch and a subsequent strangling of consumer demand.

Just when it seemed that the worst might be over, in July the newly re-elected administration of President Carlos Menem was beset by bitter political infighting. The future of Domingo Cavallo, the economy minister and the darling of foreign investors, seemed in doubt.

The Marval index of blue-chip stocks reached its low point of 262.11 in March, 43 per cent below its close at the end of 1994. It rose past 400 as it became clear that Argentina was not going to devalue, but plummeted again when political wrangling broke out.

By those standards, it was with a sense of relief that Argentina reached mid-December with the Merval at 478.2, fractionally above the 460 level at which the year began.

Sentiment has been improved by a political truce and by snippets of good news, such as $4bn pledged in a tax amnesty and the revival of the long-dormant privatisation process. Daily volumes of $20m, still modest, at least climbed above single-figure doldrums.

There is a sense of guarded optimism for 1996. GDP is expected to grow by about 2 to 3 per cent, while inflation should be negligible.

But, warns Mr Christopher Ecclestone, analyst at Interacciones, "one can't expect anything but pedestrian earnings growth". Argentine p/e ratios, averaging 12.1 according to ING Barings, may look attractive, but most companies will struggle to lift profits in the face of depressed demand.

Groups that could buck the trend include those in the construction sector, which is expected to revive thanks to government-backed mortgage schemes and the return, to some extent, of bank credit. By December, some 90 per cent of deposits that fled had returned, and banks were cautiously beginning to lend, though mainly to consumers.

Companies with export potential could also do well, particularly those in the booming agricultural sector. Unfortunately for investors few are listed, although analysts say 1996 could see several new companies being quoted on the Bolsa.

Low inflation, plus continued productivity gains, are making once-overpriced Argentine products increasingly competitive abroad as evidenced by the 30 per cent improvement in the export performance in 1995.

That trend is expected to continue next year, although not quite so dramatically. Exports, though, still comprise too small a portion of GDP to lead the economy out of stagnation.

Much will depend on the performance of Brazil, whose consumer boom explained much of Argentina's higher exports in 1995, and on continued high commodity prices. The country's modest prospects for next year also remain vulnerable to another external shock of the sort that derailed the Argentine "miracle" in 1995. But barring any nasty surprises, some analysts believe the Merval should top 600 points by the end of 1996, which would represent more than a 25 per cent rise in real terms.

Brazilian stocks face uncertain start to year

By Jonathan Wheatley in São Paulo

After what Mr Alvaro Vidigal, president of the São Paulo Stock Exchange (Bovespa), described as a "difficult" year for the market, Brazilian stocks face an uncertain start to 1996.

Buffeted by the aftermath of the Mexican currency crisis and by political and economic worries at home, stocks made little headway during the year and the Bovespa index is set to end 1995 little changed from its 1994 close of 43,539.

Despite the continuing success of Brazil's economic stabilisation plan and underlying confidence in the government's ability to deliver its promised structural reforms, stocks have suffered from an economic slowdown in the second half of 1995 and from impatience at the pace of reform.

Mr Vidigal says Brazilian stocks attracted less foreign investment this year because of competition from markets in other emerging countries and in the US. The Bovespa is expected to trade a total of R$70bn ($72.4bn) this year, down from R$88bn in 1994.

Brokers are doing their best to put a brave face on next year's prospects.

Mr Andrew Shores, of Brazilian investment bank Garantia in São Paulo, says slower economic growth during the first half should mean many companies will underperform. "But for the year as a whole, companies serving lower income groups will do well, especially in industries like food and beverages, packaging and retail."

The drop in inflation from 50 per cent a month in June 1994 to less than 2 per cent today has particularly benefited Brazil's poorer majority, who now have disposable income for the first time in many years.

Mr Shores says public sector companies should also outperform the market, thanks to recent and planned increases in utility tariffs. "It will be a market of few stocks," he says, "but those few should perform well".

Markets have been disappointed in 1995 by what has been seen as slow progress on the government's reform programme. There have been few privatisation sales, and reforms in tax and, especially, welfare and the civil service have met opposition in Congress. The reform programme is far from derailed, however.

"Even though reforms aren't moving as fast as the market would like, progress is still being made," says Mr Wayne Perkins of Norchem, Chemical Bank's investment banking affiliate in Brazil. "investors should soon start to see that the glass is half full instead of half empty."

Mr Perkins thinks improvement could come early next year.

CURRENCY MARKETS

Philip Gawith

Markets look to festive Fed

The only scheduled event of any significance that stands between currency traders and their turkey is the meeting tomorrow of the Federal Open Market Committee in the US.

Last week saw most leading European countries, with the exception of Italy, cut their rates. The question is whether the Fed will follow their example.

The market consensus is easily summarised: the economic case for lowering rates is well-nigh unimpeachable. The only issue is the timing, and the only reason for not moving this week is uncertainty about the outlook for fiscal policy, while the budget imbroglio between the White House and Congress remains unresolved.

Mr Dave Munro, chief US economist at High Frequency Economics in New York, is optimistic.

"Fiscal atmospherics will remain broadly investor friendly," he contends, with the deficit on course for balance in the new decade.

He believes, however, that the Fed will leave rates unchanged, with a bias towards ease.

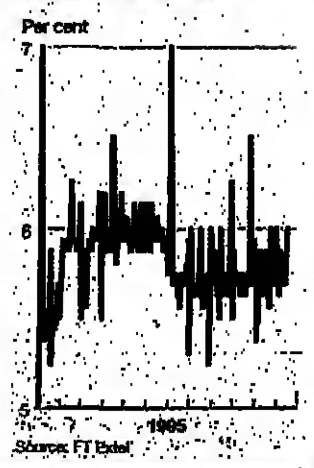
Analysts at IBJ International in London agree, arguing that "the adverse market impact resulting from inaction will be limited by speculation that the Fed will definitely move at its 30/31 January meeting. At that time, policymakers will have the advance estimate of 1995 fourth quarter GDP, providing clear evidence of the economy's slowdown, together with a freshly minted budget deal."

Whatever the Fed decides, market response is likely to be muted. Few investors or traders have the appetite for risk in the final days of the year, following the Mexican debacle a year ago.

The outcome of the weekend elections in Russia has some potential to move markets.

A strong showing by Communist/nationalist parties could unsettle the rouble, and benefit the D-Mark, but the rouble's calm tone last week suggests these scenarios are already in the price.

Federal funds rate



Source: FT Extel

ING Baring Securities Emerging Markets Indices

Index	15/12/95	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (301)	143.90	-0.65	-0.45	+10.50	+7.87	-14.13	-8.94
Latin America							
Argentina (20)	86.17	+2.80	+3.35	+12.44	+18.88	+0.06	+0.07
Brazil (21)	182.25	-4.08	-2.19	+17.93	+10.91	-27.12	-12.95
Chile (12)	193.44	+6.83	+3.66	+11.19	+6.14	-18.12	-8.57
Mexico (25)	67.37	-2.80	-4.00	+8.83	+15.08	-30.26	-30.99
Peru(17)	1028.94	+50.76	+5.19	+194.65	+23.33	+180.27	+21.24
Latin America (95)	117.63	-0.73	-0.62	+13.26	+12.70	-21.14	-15.23
Europe							
Greece (18)	95.81	-0.71	-0.74	-2.34	-2.38	+8.81	+10.13
Portugal (18)	115.06	+1.44	+1.27	-2.35	-2.00	-1.21	-1.04
Turkey (21)	84.35	-6.22	-8.87	-11.31	-11.82	+8.24	+10.82
Europe (55)	120.99	-0.63	-0.52	+1.92	+1.62	+23.29	+23.84
Asia							
Indonesia (26)	136.12	-6.25	-4.39	+5.79	+4.45	+2.43	+1.82
Korea (23)	137.41	-9.99	-6.78	-5.47	-3.83	-2.48	-1.77
Malaysia (23)	227.38	+2.71	+1.21	+21.57	+10.48	+16.53	+7.84
Pakistan (11)	68.29	+0.11	+0.16	-0.84	-1.22	-37.90	-35.69
Philippines (11)	248.70	+0.96	+0.39	+19.61	+8.56	-33.43	-11.85
Thailand (25)	249.32	+0.24	+0.10	+17.72	+7.65	-2.32	-0.92
Taiwan (32)	125.36	+4.90	+4.05	+8.14	+6.91	-58.19	-31.60
Asia (151)	200.26	-0.51	-0.26	+12.08	+6.42	-10.36	-4.92

All indices in $ terms, January 7th 1990=100. Source: ING Baring Securities

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 15, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7312.15	4750.00	3292.67	4891.85
Albania	(Lek)	144.473	93.8500	65.0565	91.9107
Algeria	(Dinar)	79.6331	51.7300	35.8589	50.6611
Andorra	(French Fr)	7.6408	4.9635	3.4407	4.8609
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(D-Mark)	2.2206	1.4425	1	1.4128
Ghana	(Cedi)	2201.34	1430.00	991.266	1400.45
Gibraltar	(Gib £)	1	0.6496	0.4503	0.6362

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	367.108	238.475	165.308	233.547
Greenland	(Danish Krone)	8.6107	5.5935	3.8774	5.4779
Grenada	(E Carr $)	4.1564	2.7000	1.8716	2.6442
Guadeloupe	(Local Fr)	7.6408	4.9635	3.4407	4.8609
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(Nor. Krone)	9.8082	6.3714	4.4166	6.2397
Oman	(Rial Omani)	0.5927	0.3850	0.2669	0.3770

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	52.6718	34.2158	23.7181	33.5088
Panama	(Balboa)	1.5394	1	0.6932	0.9793
Papua New Guinea	(Kina)	2.0350	1.3219	0.9163	1.2946
Paraguay	(Guarani)	3021.07	1962.50	1360.39	1921.95
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zambia	(Kwacha)	1449.57	941.645	652.742	922.187
Zimbabwe	($)	14.3326	9.3105	6.4540	9.1161

Special Drawing Rights December 14, 1995 Utd Kingdom £0.964778 Utd States $1.48525 Germany DM2.14926 Japan Y150.921 European Currency Unit Rates December 15, 1995 Utd Kingdom £0.845772 Utd States $1.30207 Germany DM1.87927 Japan Y132.748

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (d) Currency fixed against the US Dollar (f) Floating rate (1) Venezuelan Official rate devalued on 11/12/95. Market rate derived from Brady bond trading. (2) Yugoslavian Dinar devalued on 28/11/95; Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4368.
Xmas & New Year publication dates. Dec 22nd rates will appear on Sat 23rd & Weds 27th Dec. Dec 29th rates will appear on Sat Dec 30th & Tues Jan 2nd.
To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times
Friday, December 15, 1995

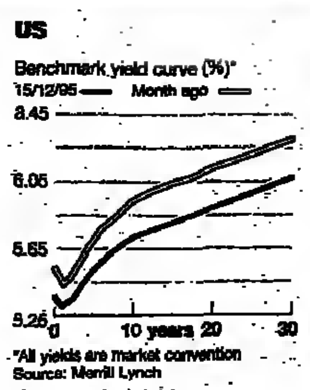
WORLD BOND MARKETS: This Week

NEW YORK
Richard Waters

After interest rate cuts in Europe last week, the focus now shifts to the US, and tomorrow's meeting of the Federal open market committee. Wall Street appears evenly divided over whether the Fed will shave another 25 basis points off its target rate, or wait another month before acting.

The continuing rancour in the budget debate and mixed economic signals recently have made optimists a little more cautious. Last week, for instance, a reported jump in producer prices for November seemed to indicate a build-up of inflationary pressures – though that was followed swiftly by a highly favourable (for the bond market) consumer price report. Weak holiday sales in the stores have added to the impression of consumer caution.

If the Fed chooses not to act tomorrow, any decline in the price of longer dated bonds is likely to be limited: the general expectation remains for a quarter-point cut soon, with more to follow later in 1996.



*All yields are market convention
Source: Merrill Lynch

That other big US deficit – on trade – will be the focus of attention on Wednesday, with October's export/import figures: according to economists surveyed by MMS, the deficit will jump to $9bn, from $8.3bn the month before.

On Tuesday, third-quarter GDP is likely to be revised up from its initial level, with many forecast putting the growth at about 3.5 per cent.

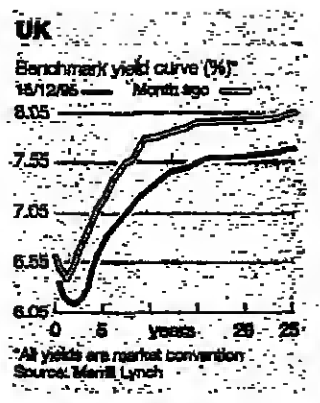
LONDON
Conner Middelmann

Gilts had a strong week, boosted first by the cut in UK base rates on Wednesday and spurred further by rate cuts in nearly every other European country. On Liffe, the March long gilt futures contract hit a high of 111 1/32 on Friday and closed at 111, up from 110 5/32 the previous week.

Although investors may be tempted to take profits as the year-end approaches, dealers expect gilts to remain well-supported. "Domestic and foreign inflows are expected to continue solidly until Christmas," says Mr Andrew Roberts, gilts analyst at Union Bank of Switzerland.

He expects the yield curve to flatten as the short end has already factored in the probable full potential for monetary easing – the June 1996 short sterling contract pricing in two 25-basis-point rate cuts, and the two-year to 10-year yield spread close to its peak at 127 basis points.

Index-linked gilts are likely to continue underperforming conventional bonds, partly because £220m of unsold tranchettes are still overhanging the market.



*All yields are market convention
Source: Merrill Lynch

The data calendar looks somewhat more sparse than last week's, with November public-sector borrowing numbers due on Monday (analysts are looking for a rise of £2.5bn); November M4 money supply data on Wednesday; and final fourth-quarter GDP figures on Thursday.

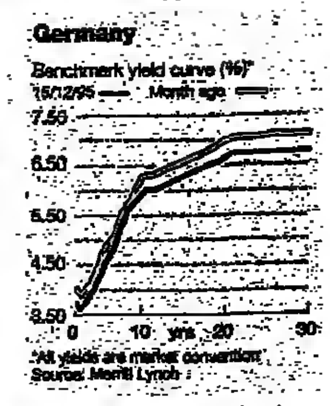
FRANKFURT
Andrew Fisher

With a final pre-Christmas flourish, the Bundesbank delivered the interest rate cut the markets had been awaiting and sparked a wave of similar moves across Europe. Bunds advanced and dealers expected the trend to continue.

There had been concern that the bond market could ease when the Bundesbank cut rates – many economists had not expected it to act until early next year – since this would be perceived as the last reduction in the cycle.

This proved unfounded. Also, speculation about yet another rate cut can be heard, the likelihood depending on whether the German economy deteriorates further or the French franc comes under heavy pressure.

With the next three securities repurchase (repo) tenders set at 3.75 per cent against last week's 3.98 per cent – the discount and Lombard rates now stand at 3 and 5 per cent respectively – money market rates are expected to dip further.



*All yields are market convention
Source: Merrill Lynch

Mr Kermit Schoenholtz, of Salomon Brothers, said repo rates should fall to between 3.25 and 3.5 per cent in the first quarter of 1996, reflecting low inflation and below-par economic growth. He expected low interest rates to persist next year.

Investor concerns about European Monetary Union should continue to prop up long-term Bund yields, however.

TOKYO
Emiko Terazono

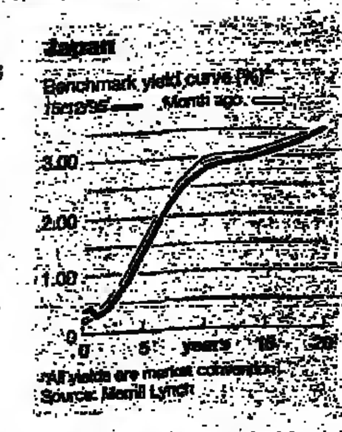
Bond prices are expected to fluctuate in a narrow band this week on buying by life assurance companies and profit-taking by banks before the March fiscal year-end.

While prices have remained firm, further large-lot buying by investors is unlikely, as interest is shifting to mid-term bonds, including bank debentures.

"Most investors are now fearful of a sudden rise in market rates and are shortening duration," says Credit Suisse in Tokyo.

Institutional investors already have a high portion of bonds on their portfolios and are reluctant to increase their allocations – especially in view of the current low interest rates.

Interdealer trading figures in November indicated that transactions of 10-year domestic bonds fell 11 per cent to Y21,730.1bn while trading in Treasury bills dropped 40.7 per cent to Y5,611.5bn because of a rise in buying operations by the Bank of Japan. Trading in bank debentures rose 8 per cent to Y904.5bn.



*All yields are market convention
Source: Merrill Lynch

Meanwhile, concerns over deficit covering bonds may rise this week as the size of the issue next fiscal year becomes clearer.

Mr Kaoru Yosano, acting chairman of the Liberal Democratic party's policy affairs research council, called for a large amount of deficit covering bonds to make up for revenue shortages next year.

European Monetary Union

Lawyers may gain from conversion fall-out

Concerns are growing in some quarters of the capital markets about possible legal risks stemming from European Monetary Union (Emu). Two potential problems, in particular, occupied executives at banks and securities houses in the run-up to this weekend's Madrid summit of European leaders and finance ministers.

First, the European Commission's plan to convert bonds and other long-term financial contracts denominated in Europe's existing "currency", the European Currency Unit (Ecu), directly – at a rate of one to one – into the new currency, the Euro, has already given rise to controversy. That has been highlighted by a recent exchange between British lawyers and the International Primary Markets Association (IPMA), the bond dealers' trade association.

Second, there are fears that some long-term swap contracts involving currencies such as the French franc or the D-Mark could bring complex legal wrangles. According to the current timetable, clarified by this weekend's summit, all Emu members' currencies would disappear in 2002.

The Ecu-Euro controversy emerged nearly two weeks ago when the UK's Financial Law Panel published a report questioning the plan to directly convert the Ecu into the Euro. The Panel, set up in 1993 by the Bank of England and the City Corporation to examine legal uncertainties that affect financial markets, is worried that the economic mismatch between the Ecu and the Euro could cause legal disputes.

Because it is likely to be backed by the Continent's strongest currencies – the so-called hard core bloc – the new Euro should be stronger than the Ecu, which is based on a basket including weaker units such as the Italian Lira.

"Nobody has focused on the fact that the economic differences between the two might have economic repercussions. It will cost or save people a huge amount of money depending on where they stand in the market," says Mr Colin Banford, Panel chief executive.

"One assumes the Euro will be a stronger currency. If you are a holder of Ecu debt that is fantastic news. You've loaned a soft currency and you are being repaid in a hard currency. But if you have borrowed in the old currency you lose out. Your obligations are automatically switched to a harder currency."

The Panel is calling for more discussion of the issues and suggests the European Commission allows the Ecu to coexist alongside the new Euro, with the exchange rate between the two left to market forces. Otherwise, says Mr Banford, legal action could be triggered by borrowers seeking to protect themselves. "You can see US lawyers having a high old time," he says.

Bond dealers, however, have taken issue with the Panel's report. The International Primary Market Association (Ipma), which represents the interests of 100 international bond houses, said it was in favour of one-to-one conversion, arguing that the Panel "may not have given sufficient weight to the expectations of the market".

Mr Cliff Dammers, secretary general, says investors have welcomed the conversion plan and governments with outstanding Ecu bond issues have agreed to the one-to-one conversion. He says many private issuers of Ecu bonds have already swapped the proceeds, and will not be hit.

The association also says that to let the Ecu exist alongside the Euro "would cause confusion in the market". Not only would Ecu bonds be difficult to clear, their liquidity would decline, cutting the value of outstanding obligations and damaging the interests of Ecu bond investors. "Ecu bonds will be adrift, abandoned to a lonely existence with a short half-life."

Ipma says legislation at European and national level may be necessary to dispel uncertainty, but the Panel thinks this could create more problems than it solves.

The future of longer-term financial contracts denominated in currencies that will cease to exist after 2002, the anticipated start for monetary union, is also causing concern.

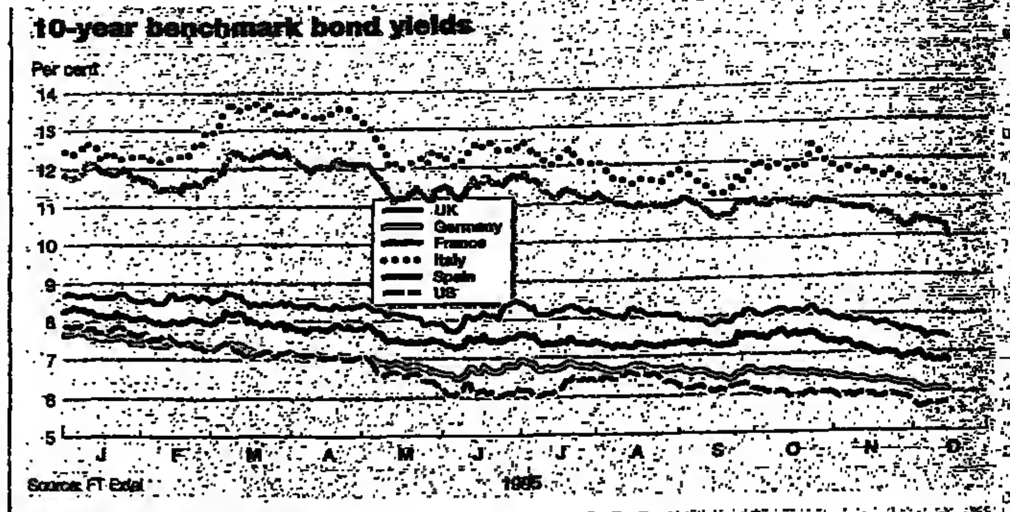
The European Commission plans to convert contracts denominated in the new Euro currencies (such as the D-Mark or French Franc) into new "Euro" bonds and carry the same coupon. For bonds the process should be relatively straightforward, although interest rates are unlikely to converge smoothly and the markets could be subject to prolonged periods of volatility in the run-up to Emu.

However, the situation is more complicated in relation to the swaps contracts involving currencies such as the D-Mark. Traders downplay the problems. "No-one's worried about it. The market will take care of itself," said one bank's head of derivatives.

Nonetheless, there are fears that if such negotiations are unsuccessful, potential losers in such contracts could take legal action. Mr Dammers says dealers "don't want their freedom of contract abridged and Ipma firmly supports that, but sheer logistical problems may simply overwhelm the swap market".

Richard Lapper

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.00	6.10*	9.00	6.50*
Overnight	5.75	0.38	3.94	4.98	10.43	6.38
Three month	5.35	0.50	3.90	5.10	10.31	6.38
One year	5.30	0.31	3.85	5.00	10.25	6.43
Five year	5.54	1.84	4.82	5.89	10.85	6.74
Ten year	5.74	2.83	6.02	6.68	11.17	7.38

(1) France-Repo rate, (2) UK-Base rate. Source: Reuters

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	120-04	120-00	-0-04	120-13	119-31	4,908	61,815
Mar	119-28	119-25	-0-04	120-07	119-24	204,677	359,247
Jun	119-19	119-12	-0-04	119-25	119-19	2,707	15,858

CONTRACTS & TENDERS

US Treasuries

Budget-balancing efforts rock Wall St

Wall Street is still reeling from the US Treasury's sudden attack on a number of its most esoteric products, launched as part of the government's efforts to reduce the budget deficit.

Issuance of products such as 100-year bonds, monthly income preferred securities (Mips) and trust-originated preferred securities (Toprs) has ground to a halt in the face of the proposals which were announced without warning on the afternoon of December 7.

Although the proposals have to pass Congress, the Treasury said they would take effect immediately. The day after the Treasury dropped its bombshell, Morgan Stanley had to postpone a $200m 100-year bond issue it had launched for Monsanto, the chemicals company, only the morning before.

Under the proposals, types of debt which the Treasury regards as being more like equity would be taxed like equity. Interest payable on bonds with a life greater than 40 years or on some bonds which are repayable in shares would no longer be tax-deductible, sharply increasing the cost to the borrower.

Also hit would be companies which buy shares in other companies, especially in the form of preferred shares, as the tax treatment of the dividends the shareholders receive would be harsher.

Many securities firms, the Securities Industry Association and the Public Securities Association, have already begged Washington to reconsider.

CENTURY BONDS

Issuer	Year	Amount ($m)	Underwriter
Coca Cola Co.	1993	150	Merrill Lynch
ABN Amro	1993	150	Morgan Stanley
Walt Disney Co.	1993	300	Morgan Stanley
BellSouth Telecom	Nov 1995	500	Morgan Stanley
	Dec 1995	500	Salomon Brothers
Colombia/HCA	1995	200	Morgan Stanley
News Corp	1995	150	Goldman Sachs
Wisconsin Electric	1995	100	Morgan Stanley

Source: Investment Dealers' Digest/ FT

There is annoyance among some on Wall Street that the axe which could fall on the products was wielded by Mr Robert Rubin, the US Treasury secretary, a former co-head of Goldman Sachs.

Also angering investment bankers has been the way the proposals were made without any prior consultation and using language – referring to the changes as a closing of loopholes, for example – which to the issuers of such debt seemed pejorative.

The Treasury's view is that if the budget deficit is to be eliminated over the next few years, then everyone has to share the pain. People living on welfare or those relying on Medicare and facing cuts in services may have little sympathy with fat cats on Wall Street howling over losing a few fees.

One Wall Street banker admits: "If this is the price we have to pay for a balanced budget then I am willing to pay it." After all, the prospect of a deal to cut the deficit over the next seven years has helped propel stock and bond markets this year, to Wall Street's profit.

If issuance of the types of securities which the Treasury plans to tax more highly were to stop completely, the effect on Wall Street profits as a whole would be relatively small. Estimates by Securities Data, the statisticians of the securities markets, suggest only about 2 per cent of Wall Street's disclosed fees come from the issues in question.

However, the Treasury's selection of products means a few firms could bear the brunt of the loss of business. Morgan Stanley, for instance, has been the most active underwriter in the century bond business, Goldman Sachs in Mips, and Merrill Lynch in Toprs and other products.

But such is the creativity of the Wall Street bankers that if one loophole closes, another can usually be found. And if borrowers need to raise money they will find other ways of doing it.

The real problem, as the representations made to Washington stress, is that the tax changes would make it more expensive for the borrowers to raise money.

A 7 per cent coupon on a 100-year bond costs only 4.5 per cent after tax if the interest is deductible. If it is not, the after tax cost is the same 7 per cent as the pre-tax costs. That is a big difference for an issuer.

The SIA, for instance, has thundered at Washington, saying the initiative is "short-sighted and misguided" because it could raise capital costs in the US. The SIA's chairman called the proposal a "more an ill-thought-out attempt at a quick fix than a coherent tax policy that encourages savings and lowers capital costs to fuel expansion and create new jobs".

The PSA, the trade association for the bond market, called the proposals "an attack on capital formation at a time when this nation should be focusing its attention on increasing savings and investment".

When the dust settles, though, perhaps the greatest damage will have been done by the method by which the proposals were made, rather than their content. The sudden moving of goalposts leads to uncertainty. Or as Merrill Lynch said: "Sudden and capricious tax law changes have a chilling effect on business investment and capital formation."

Maggie Urry

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Kuraray Co.(a)(c)φ	200	Dec.1999	2.625	100.00	-	-	Daiwa Europe
Shibusawa Warehouse(b)φ	100	Dec.1999	2.625	100.00	-	-	Yamaichi Intl.(Europe)
LG Semicon Co.	100	Dec.2000	6.375	99.68R	6.452	+80(5⅝%-00)	Nomura International
Republic of Lithuania(f)	50	Dec.1997	10.00	99.90R	10.05	+445(5⅞%-97)	Nomura International
Campbell Soup Company	200	Jan.1999	5.50	99.827R	5.564	+8(5½%-98)	JP Morgan Securities
Utd.Parcel Service of America	200	Jan.1999	5.50	99.937R	5.523	+2(5½%-98)	Merrill Lynch Intl.
Banque Indosuez‡	135	Dec.1998	(f)	100.00R	-	-	Citibank International
Step Enterprise(n)φ	38	Jan.2000	3.375	100.00	-	-	Daiwa Europe
COMT, Class B(t)‡	97.5	Jul.1996	(t1)	100.00	-	-	BZW
D-MARKS							
Allgemeine Hypo (p,c)	1bn	Jan.2005	6.25	101.76	-	-	Commerz/DG Bk/Dresdner
SBAB‡	200	Feb.1998	(d,s)	100.00R	-	-	Lehman Bros.Bankhaus
Rheinische Hypo.(p,g)	500	Dec.2001	5.50	101.475	5.205	-	BayHypo/Comz/Dresdn/UBS
Dresdner Finance Neths.	500	Jan.2001	5.25	101.60	4.882	-	Dresdner Bank
Republic of Argentina(h)	250	Nov.2002	10.50	99.75R	10.54	+479(7¼%-02)	CSFB-Effectenbank
Sudwest. LB Capital Mkts.(l)	250	Dec.2000	5.25	100.22R	5.194	+27(5¼%-00)	UBS Germany
YEN							
Republic of Colombia(l)★	15bn	Dec.2000	3.00#	100.00	3.000	-	Merrill Lynch
SWISS FRANCS							
Korea Mobile Telecom.(e)φ★	70	Dec.1999	0.125	100.00	-	-	Credit Suisse
GUILDERS							
BNG(k)	1bn	Jan.2006	6.375	100.24R	6.342	+13(6%-06)	ABN Amro Hoare Govt.
Rabobank Nederland(a)§	200	Jan.2006	4.25	102.00	-	-	Rabo Securities
FRENCH FRANCS							
Crédit Local de France	5bn	Jan.1999	5.625	99.49R	5.815	+20¼(5¼%-98)	CDC /Société Générale
Eos Finance Company(m,t,s)	1bn	Nov.2002	6.90	99.90R	6.925	+43(6½%-02)	JP Morgan & Co.
Apigaz, Senior Tranche(v)‡	720	Dec.2008	(v1,s)	99.81R	-	-	CCF/ Morgan Stanley

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
LUXEMBOURG FRANCS							
European Investment Bank(q)	2bn	Dec.2004	6.50	102.50	6.13	-	BGL/ BIL
SNS Groep	2bn	Feb.2003	6.50	102.75	6.007	-	ABN Amro Bank Lux.
Hypobank International(s)	2bn	Dec.2000	6.00	102.80	5.33	-	BGL/ BIL
ITALIAN LIRE							
Abbey Natl.Try.Services(a)	75bn	Oct.1998	11.00	102.125	-	-	Credito Italiano
ECUS							
European Community(o)‡	115	Dec.2005	(o1)	100.00	-	-	Banque Paribas
CANADIAN DOLLARS							
KfW International Finance(s)	100	Dec.2001	6.75	98.249	7.125	+5(7½%-01)	Toronto Dominion Bank
PESETAS							
Swedish Export Credit	10bn	Dec.2005	(r)	100.00	-	-	Citibank Espana

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. φWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: $5,000 +1 wrt. Exercise price: Y1,087. FX: 102.10 Y/$. b) Denom: $10,000 +2 wrts. Exercise price: Y615. FX: 102.50 Y/$. c) Fungible with DM1bn: Short 1st coupon and plus 18 days accrued. d) 3-mth Libor +5bp. e) Denom: SFr50,000 + 50 wrts. Ex price: Won 784,700. FX: 659.35 Won/SFr. Relisting [illegible] classes effective 12/7/97 & 13/7/98. f) 3-mth Libor +12½bp. g) Fungible with DM1.5bn. Plus 15 days accrued. h) Fungible with DM750m. Plus 43 days accrued. i) Over interpolated yield. j) Fungible with DM250m. Plus 45 days accrued. k) Fl 1bn launched on 28/11/95 was increased to Fl 2bn. l) Long 1st coupon. m) Long last coupon. n) Collateralised by Italian government securities. o) Fungible with L200bn from 8/10/95. No accrued -short 1st coupon. Callable on 8/10/97 at par. q) Amortises 20% annually from 2001. o1) 6-mth Libor -6bp. p) Oeffentliche Pfandbrief. q) 6.57% for 1st 3 yrs and 10.61% thereafter. r) Secured notes with covered warrants exercisable into shares of Stockholm Co. Final terms: 20/12/95. s) Short 1st coupon. t) Capital One Master Trust. Secured by credit card receivables originated by Capital One Bank. Legal maturity: 15/12/00. Callable on coupon dates from Dec.96 at par. Subordinated to existing $800m Class A. u) Convertible on 23/1/06 into Dutch Top Five Index at strike 980. v) Backed by employee loans originated by Gaz de France. Legal maturity: Dec.2017. Average life: 8.4 yrs. 10% cleanup call. v1) 3-mth Pibor +25bp. v2) Mezzanine tranche of FFr128m and subordinated tranche of FFr[illegible] were privately placed. Note: Yields are calculated on ISMA basis.

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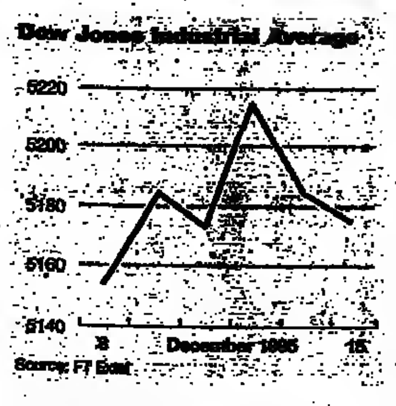
EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

All eyes on open market committee



There are several pieces of important economic data due out this week, but the attention of the equity market will fall on tomorrow's meeting of the Federal Reserve's open market committee.

Economists at Wall Street's biggest broking houses spent much of last week assessing their opinions about whether the Fed would cut the target interest rates this week and so benefit shares.

Most of last week's data portrayed a slowing manufacturing sector, but the Fed had expressed concern the week before about tightness in the labour market in some regions.

Mr John Lipsky, chief economist at Salomon Brothers said: "Although a new easing appears relatively certain no later than the January FOMC meeting, the case for an immediate move may not yet be compelling to all members of the FOMC."

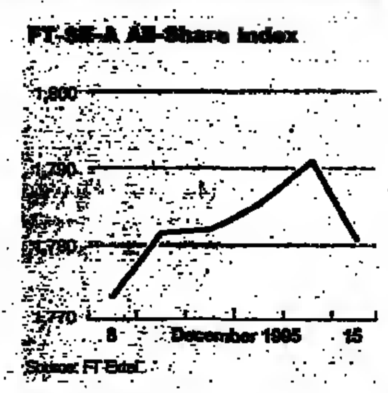
Economic data will be especially important if the Fed opts not to cut rates; the market's attention will immediately turn to speculation about easier monetary policy in the new year.

Also important this week will be tomorrow's figures on housing starts. Economists expect construction will have edged up to 1.35m units from the 1.34m recorded in October.

On Thursday figures on November personal income appear. These should help economists make assessments on consumer spending over the holiday period. Economists are looking for a 0.2 per cent gain in November.

LONDON — Philip Coggan

Market bulls pull in horns for Christmas



Interest rate cuts in the UK and Europe gave only a modest boost to shares in London last week.

Although the FT-SE 100 index made two intra-day all-time highs, investors already seem to have started the process of winding down for the Christmas holidays.

With little in the way of UK economic news or company results this week, the main interest of traders, when they are not involved in the Yuletide revels, will be the meeting of the US Federal Reserve's open market committee.

An interest rate cut from the Fed will give a further boost to liquidity and send the markets off on their holidays in a happy mood.

Traders can look back on a successful 1995 with Footsie nearly 19 per cent ahead on the year and 23 per cent up on its January low.

Shares have been well supported by gilts, with the yield on the benchmark 10-year issue down to 7.38 per cent on Friday; the yield ratio is just over 2, a point where shares are usually seen as cheap.

As investors look ahead to 1996, their main concerns will be whether the slowing economy, which prompted last week's base rate cut, will exert pressure on corporate earnings and whether the market will start to turn tail at some point, as the prospect of a Labour government comes closer and closer.

OTHER MARKETS

PARIS

It was not so much the fact of the French cut in interest rates on Friday as the timing that took the equity market by surprise, *writes John Pitt*.

After the move to reduce German rates by the Bundesbank the previous day, it had been expected France would follow suit – but the *consensus was for later rather* than sooner.

With the country still gripped by strike action, many analysts had felt the authorities would wait until the issue was resolved.

Nevertheless, the 25 basis point cut in the intervention rate had minimal effect on equities, being seen as just enough to keep pace with the round of interest rate cuts around Europe.

This week analysis are hoping that the market, which made little progress last week amid the general gloom, could stage a mini pre-Christmas rally, with signs that the public sector dispute is now on the wane.

The government has made a number of concessions to union leaders and it remains to be seen if these will seriously undermine its commitment to budgetary reform.

ZURICH

A period of consolidation would be welcome this week after the market's 25 per cent climb since the start of the year to last Friday's all-time high close. Views on the longer term outlook are mixed. J.P. Morgan, for example, is taking profits on its previous upgrade of the Swiss market *and switching the money* into Italy, which, it believes, is discounting the bad news and could react positively to a relaxation of monetary policy.

But in Zurich, Bank Sal Oppenheim argues that even lower interest rates will make bond yields even more unattractive than at present while real estate will remain in the doldrums. Equities will become the only interesting investment vehicle. And for foreigners, the effect of a weaker Swiss franc, as the dollar recovers, will be more than compensated for by the progress of dollar-sensitive stocks.

FRANKFURT

A quiet week, devoid of corporate news, is in prospect in the run up to Christmas without even the opportunity to speculate on an interest rate cut after last week's move by the Bundesbank. Instead, says UBS, the focus should be on the US and whether the Fed will cut in response. Additional uncertainties could come from the expected gains of the Communist party in the Russian parliamentary elections over the weekend.

With support from lower interest rates, selling pressure *on cyclical stocks should* diminish in the course of the next few weeks. UBS continues to favour companies with a solid earnings base, given the persisting uncertainty about next year's economic outlook.

ISTANBUL

After a volatile week's trading, in which the Istanbul composite index fell by more than 7 per cent over three sessions, the market found some strength last Friday and closed the week with a session gain of 2 per cent. The approval by the European parliament last week of a Turkish-EU customs union had little effect on sentiment, with the "yes" vote having already been factored into prices. Attention is now concentrated on the general election on Sunday.

Analysts feel the ruling DYP party will not do as well as had been anticipated some weeks ago, with some forecasts that the opposition Anap party will take a lead in the polls. As a result a coalition government between the Anap and one of the other parties, probably the DSP, is looking increasingly likely. Nevertheless, the charismatic prime minister, Mrs Tansu Çiller, has been known to pull off remarkable recoveries in fortune.

But a change of government, market analysts believe, could give equities a boost in 1996. Among the leading members of the Anap is Mr Saracoglu, who could become a deputy prime minister. Until he resigned in 1993 ha was the governor of the central bank and is held in high regard.

HONG KONG

Stock prices may well rise this week on speculation that the US Fed will cut interest rates, following the moves to trim rates in Europe, *writes Louise Lucas*.

Reduced interest rates, fed through to Hong Kong via the currency peg with the US dollar, could serve to stimulate sluggish consumer spending and a static property market.

Brokers are also looking for a fillip tomorrow when a luxury housing site is up for auction. The site, in a plum Mid-levels district on Hong Kong island, boasts an unusually large area of 3,045 sq m, making it a prime target for the colony's big developers.

Auctions this year have failed to excite the property market, but brokers reckon the appeal and rarity of the Stubbs *Road site* could provide a year-end boost. The winning bid is expected to come in at between HK$209m and HK$342m.

TOKYO

While some investors hope the Nikkei index will hit 20,000 by the end of the year, analysts point out that heavy selling pressure exists around the 19,500 level. "Banks, corporate investors and public funds all want to sell around the level," says Mr Yasuo Ueki of Nikko Securities.

Many market participants believe that buying of bank shares by foreigners will be needed to take the 225 stock index up to the 20,000 level. This may be hard since most of the favourable news for the banks seems to be priced into the stock already.

Compiled by Michael Morgan

International offerings

CVRD sale shows limits of World Bank adviser rules

It will come as cold comfort to Morgan Stanley and SBC Warburg to hear that the World Bank is drawing up a list of guidelines for countries to which it lends on how to appoint financial advisers for their privatisation programmes.

The two investment banks were mortified to learn last week that their consortium's bid to advise the Brazilian government on the billion-dollar privatisation of Companhia Vale do Rio Doce (CVRD), the metals mining giant, had been disqualified because the first part of their fee estimate was ruled to be too far below the average, albeit by $91,000.

The decision to rule them out of the competition was all the more painful because it came so soon after news that they had come a very close second to the group led by Goldman Sachs in the technical part of the bidding process. Morgan Stanley and SBC Warburg have until today to appeal against the decision.

The rationale behind the World Bank's rigid point-scoring procedure, which the Brazilian government is using, is certainly commendable.

In a country where allegations of corruption are widespread, the government is making sure that the appointment of financial advisers for what is expected to be one of the most important equity offerings of 1996 is as transparent and objective as possible.

The Turkish and Peruvian governments are also following the World Bank guidelines for the privatisation of their telecoms companies. "With this technique, no-one can accuse them of lining their own or their friends' pockets," said one banker.

For the World Bank, the process gives it some control over how its money is spent. Although the much bigger success fee linked to the transaction will be paid out of the proceeds of the privatisation, the fixed-fee or retainer (on which Morgan Stanley and SBC Warburg came unstuck) will be paid with money lent by the World Bank.

However, World Bank officials acknowledge that the so-called "procurement guidelines" which were drawn up a decade ago need to be amended now that 90 of the countries to which it lends are contemplating privatisations.

The existing guidelines were set up for awarding contracts for infrastructure projects, such as building roads, or for buying equipment, such as fleets of trucks. They were not intended for the more subjective judgment of appointing financial advisers and other consultants needed in the transfer of state assets into private ownership.

Although officials would not give details of the new guidelines, which could emerge in draft form in the first quarter of 1996, they said one of the main aims would be to provide a standard formula for how investment banks are selected.

Currently, the process is done ad hoc and differs from region to region. For example, the competition for the CVRD mandate is not the same as the bidding for Turk Telecom where only those banks which pass the technical part proceed to the second round, where the lowest bid wins.

Another important consideration which the new guidelines would tackle is how to find the right balance between quality and price. "We need to revise the guidelines to make them more responsive to the privatisation business rather than the business of building dams," said one official.

But although weight will be given to investment banks' credentials and quality of their technical proposals, the overriding message from the World Bank is that price will decide. In particular, attention will focus on the correct level for contingency or success fees charged by the banks.

If the World Bank's ultimate aim is to get the best advice for the lowest cost, then Morgan Stanley and SBC Warburg should not have been disqualified from the CVRD process. It appears that they were caught out by a mechanism designed to eliminate less-qualified banks from walking away with the mandate because they were prepared to do the business for nominal or no fees at all.

In addition, the banks' bids for the fixed-fee element of the financial proposal have not been compared to their bids for the "gross spread" or the success fee element.

The CVRD situation highlights why the World Bank needs to draw up a new set of guidelines which will avoid such unintended results in future privatisation competitions. But while it is understandable that the World Bank should give priority to "value for money", bankers fear that forcing them to compete too aggressively for the business will work against emerging markets in the future.

They note that privatisations in emerging markets are much riskier than in developed countries, so fees need to reflect that. Privatisations from developed countries have not gone well on the whole this year because of the cautious response from international investors.

The "stop-start" nature of privatisations in emerging markets is another worry for the bankers. Some leading investment banks are asking themselves whether it is worth pitching for business in some emerging markets and devoting the resources to preparing the deal because of the uncertainty about whether it will ever get done.

If the first-division banks decide that emerging-market privatisations do not make commercial sense, most of the business will go to banks which might not have the strongest credentials but which are keen to break into the primary equity market.

Given the limited investor demand for emerging-market paper and the greater risks involved in such transactions, these countries need the best advice they can get if they want to pursue a successful privatisation programme. But if the World Bank imposes such limits that they can only pay peanuts, they will have to be content to have monkeys to do the work.

Antonia Sharpe

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 15 / Sch)

BELGIUM/LUXEMBOURG (Dec 15 / Frs.)

CZECH REP (Dec 15 / Koruna)

DENMARK (Dec 15 / Kr)

FINLAND (Dec 15 / Mkb)

FRANCE (Dec 15 / Frs.)

GERMANY (Dec 15 / Dm.)

GREECE (Dec 15 / Drachma)

ITALY (Dec 15 / Lire)

NETHERLANDS (Dec 15 / Fls.)

NORWAY (Dec 15 / Kroner)

POLAND (Dec 15 / Zloty)

PORTUGAL (Dec 15 / Escudo)

SPAIN (Dec 15 / Pts.)

SWEDEN (Dec 15 / Kronor)

SWITZERLAND (Dec 15 / Frs.)

TURKEY (Dec 15 / Tk Lira)

PACIFIC

JAPAN (Dec 15 / Yen)

HONG KONG (Dec 15 / H.K.$)

INDONESIA (Dec 15 / Rupiah)

MALAYSIA (Dec 15 / MYR)

NEW ZEALAND (Dec 15 / NZ $)

SINGAPORE (Dec 15 / S$)

AUSTRALIA (Dec 15 / Aust$)

SOUTH KOREA (Dec 15 / Won)

TAIWAN (Dec 15 / TW $)

THAILAND (Dec 15 / Baht)

MONTREAL (Dec 15 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Dec 15 / Rand)

INDICES

	Dec 15	Dec 14	Dec 13	1995 High		1995 Low	
Argentina							
General(29/12/77)	15219.42	15132.07	15178.27	16631.10	2/1	9831.00	9/3
Australia							
All Ordinaries(1/1/80)	2220.8	2222.7	2225.6	2225.60	13/12	1823.30	8/2
All Mining(1/1/80)	1019.5	1015.9	1020.3	1029.50	7/8	795.30	8/2
Austria							
Credit Aktien(30/12/84)	345.06	344.16	342.92	395.42	2/1	328.50	27/10
Traded Index(2/1/91)	953.42	959.31	957.52	1059.31	2/1	882.15	23/10
Belgium							
BEL20(1/1/91)	1556.57	1557.14	1557.44	1557.44	13/12	1271.53	9/3
Brazil							
Bovespa(29/12/83)	41587.0	41833.0	43696.0	49812.00	19/9	21382.00	9/3
Canada							
Metals Minls♦(1975)	5110.16	5110.04	5119.07	5268.37	23/11	3806.63	1/3
Composite♦(1975)	4672.90	4650.80	4698.39	4745.10	6/12	3981.41	30/1
Portfolio§§(4/1/83)	2311.24	2318.16	2322.77	2342.77	11/12	1953.38	30/1
Chile							
IGPA Gen♥(31/12/80)	5727.33	5681.59	5684.38	6363.10	11/7	4578.80	9/3
Denmark							
CopenhagenSE(3/1/83)	366.16	368.90	366.48	375.44	25/8	330.01	29/3
Finland							
HEX General(28/12/90)	1653.57	1783.92	1837.76	2332.22	14/9	1555.30	29/3
France							
SBF 250(31/12/90)	1224.28	1229.28	1208.28	1322.30	12/5	1154.41	13/3
CAC 40(31/12/87)	1859.25	1874.98	1833.76	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	815.98	819.52	915.85	848.78	19/9	708.87	30/3
Commerzbank(1/12/53)	2363.4	2375.4	2364.7	2427.50	19/9	2018.70	30/3
DAX‡(30/12/87)	2284.77	2285.85	2277.90	2317.01	15/9	1910.98	28/3
Greece							
Athens SE(31/12/80)	898.20	898.22	897.16	992.59	4/8	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	9858.65	9812.84	9920.88	10032.93	17/10	6967.93	23/1
India							
BSE Sens.(1979)	3049.40	3053.42	3068.16	3932.89	2/1	2822.16	29/11
Indonesia							
Jakarta Comp.(10/8/82)	492.33	489.96	491.62	519.18	11/8	414.21	13/4
Ireland							
ISEQ Overall(4/1/88)	2236.31	2240.78	2238.43	2260.71	7/12	1819.58	23/1
Italy							
Banca Comm Ital(1972)	580.79	572.47	570.58	669.54	10/2	547.79	5/12
MIB General(2/1/95)	917.0	904.0	901.0	1076.00	10/2	869.00	5/12
Japan							
Nikkei 225(16/5/49)	19348.55	19499.30	19283.48	19684.04	4/1	14485.41	3/7
Nikkei 300(1/10/82)	287.60	289.10	287.30	289.22	7/12	222.26	13/6
Topix(4/1/68)	1531.09	1539.07	1527.86	1553.40	4/1	1193.16	13/6
2nd Section(4/1/68)	2004.52	2014.03	2008.87	2138.88	4/1	1441.90	13/6
Malaysia							
KLSE Comp.(4/4/86)	990.52	998.26	984.28	1065.04	5/6	840.87	24/1
Mexico							
IPC(Nov 1978)	(u)	2575.44	2586.11	2724.50	29/11	1447.52	27/2
Netherland							
CBS TtlRtnGen(End 83)	523.9	526.5	525.0	526.50	14/12	422.90	23/3
CBS All Shr(End 83)	317.2	318.8	317.9	318.80	14/12	265.20	23/3
New Zealand							
Cap. 40(1/7/86)	2111.20	2121.70	2148.60	2208.02	20/10	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1252.64	1265.65	1258.36	1282.16	18/10	1036.00	10/3
Philippines							
Manila Comp(2/1/85)	2497.65	2484.65	2460.50	2958.12	10/7	2196.48	20/11
Portugal							
BTA(1977)	2492.2	2492.4	2477.7	2911.60	9/1	2412.90	22/11
Singapore							
SES All-S'pore(2/4/75)	549.15	544.18	533.47	549.18	15/12	472.90	23/1
South Africa							
JSE Gold(28/9/78)	1311.6♥	1318.7	1350.6	2023.00	2/1	1258.20	30/10
JSE Indl.(28/9/78)	7902.8♥	7931.9	7937.7	7944.80	13/12	6222.00	31/1
South Korea							
KoreaCmpEx**(4/1/80)	899.55	908.67	929.46	1027.37	3/1	847.09	27/5
Spain							
Madrid SE(30/12/85)	315.56	313.77†	312.80	318.98	13/9	284.06	23/3
Sweden							
AffarsvardnGen(1/2/37)	1686.7	1703.6	1712.8	1872.10	19/9	1439.89	29/3
Switzerland							
Swiss Bk Ind(31/12/58)	1515.69	1511.11	1507.39	1516.89	15/12	1174.63	13/3
SBC General(1/4/87)	1128.70	1124.54	1123.16	1128.76	15/12	879.58	13/3
Taiwan							
WeightedPr.**(30/6/66)	5053.90	5064.59	5010.01	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET(30/4/75)	1262.77	1255.08	1247.48	1472.04	10/7	1135.89	16/3
Turkey							
Istanbul Cmp.(Jan 1986)	39688.0	39626.4	38748.0	54853.80	21/4	24844.31	23/1
WORLD							
MS Capital Int(1/1/70)	726.1*	729.1	727.9	731.70	14/12	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1475.14	1474.46	1470.58	1480.89	15/9	1222.41	13/3
Euro Top-100(26/6/90)	1324.86	1332.94	1326.98	1332.84	14/12	1177.34	9/3
JCaselOrgns(31/12/88)	(u)	336.51	335.03	349.47	14/7	282.07	23/1
ING Brngs Emrg(7/1/92)	143.90	145.06	144.73	158.87	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
Dec	1897.0	1870.0	-13.0	1901.0	1862.0	23,750	37,004
Jan	1908.0	1877.5	-13.5	1907.5	1874.6	2,194	6,980
■ DAX							
Dec	2300.0	2308.5	-1.5	2318.5	2296.5	14,588	-
Mar	2313.0	2319.5	+7.5	2326.5	2313.0	57	-
■ OMX							
Dec	1325.00	1322.00	-9.00	1333.00	1315.00	4,858	11,042
Jan	1335.75	1332.00	-30.00	1343.50	1324.25	1,973	5,947
■ SOFFEX							
Dec	3270.0	3275.7	+1.5	3279.5	3267.0	2,553	5.115
Jan	3275.0	3295.5	+12.5	3298.0	3274.1	4,326	11,115

** Sat Dec 0 : Taiwan Weighted Price 4984.92 ; Korea Comp Ex 962.87. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 26 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 15 - 2283.84 -2.37.

US INDICES

Dow Jones	Dec 15	Dec 14	Dec 13	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	5176.73	5182.15	5215.47	5216.47 (13/12)	3832.08 (30/1)	5216.47 (13/12/95)	41.22 (2/7/32)
Home Bonds	104.90	104.96	105.15	105.34 (11/12)	93.63 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2033.62	2059.62	2084.54	2082.11 (5/12)	1473.10 (3/1)	2082.11 (5/12/95)	12.32 (8/7/32)
Utilities	221.98	221.07	220.30	221.88 (15/12)	183.03 (3/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5217.55 (5268.95) Low 5135.54 (5148.55) (Theoretical♦)
Day's high 5188.68 (5235.82) Low 5163.00 (5172.40) (Actual♦)

Standard and Poors	Dec 15	Dec 14	Dec 13	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite‡	616.34	616.92	621.69	621.50 (13/12)	459.11 (3/1)	621.69 (13/12/95)	4.40 (1/6/32)
Industrials♥	724.32	726.07	731.65	731.65 (13/12)	546.28 (3/1)	731.65 (13/12/95)	3.62 (21/6/32)
Financial	61.50	61.30	62.16	63.66 (6/12)	41.64 (3/1)	63.66 (6/12/95)	8.64 (1/10/74)
NYSE Comp.	328.66	329.10	331.17	331.17 (13/12)	250.73 (3/1)	331.17 (13/12/95)	4.46 (25/4/42)
Amex Mkt Val	535.37	537.77	538.86	553.58 (12/9)	433.12 (6/1)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Cmp	1030.47	1038.19	1058.54	1069.79 (4/12)	743.58 (3/1)	1069.79 (4/12/95)	54.87 (31/10/72)

■ RATIOS

	Dec 8	Dec 1	Nov 24	Year ago
Dow Jones Ind. Div. Yield	2.27	2.30	2.32	2.88
	Dec 13	Dec 6	Nov 29	Year ago
S & P Ind. Div. yield	1.85	1.85	2.00	2.48
S & P Ind. P/E ratio	10.06	18.98	18.64	18.29

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Kmart	24,254,700	6⅝	-1⅛
Micron	13,061,800	45⅛	-5
Texas Inst	8,161,000	49	-3¾
Nokia	9,047,100	33¾	-2¾
Motorola	8,977,600	57¼	-⅛
WalMart	8,375,700	23¼	—
Gen Elec	6,938,800	72½	+1⅛
IBM	6,843,000	90⅛	-2¾
AT&T	6,714,400	68¼	+1⅛
Exxon	5,210,700	82	-1

■ TRADING ACTIVITY

● Volume (million)	Dec 15	Dec 14	Dec 13
New York SE	639.527	461.933	417.223
Amex	22.391	21.490	19.270
NASDAQ	(u)	580.944	497.915
NYSE			
Issues Traded	3,095	3,090	3,092
Rises	1,124	1,051	1,426
Falls	1,237	1,275	963
Unchanged	734	765	703
New Highs	158	161	185
New Lows	31	27	26

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Mar	623.75	622.75	-1.00	624.30	621.05	112,960	161,998
Jun	629.20	626.15	-0.75	629.70	626.80	326	6,056
■ Nikkei 225							
Mar	19530.0	19340.0	-250.0	19590.0	19310.0	21,898	134,263
Jun	19550.0	19330.0	-230.0	19550.0	19330.0	908	17,571

Open interest figures for previous day

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

NORTH AMERICA

CANADA

TORONTO (Dec 15 / Can $)
4 pm close

1 Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, December 15, 1995

	Stocks Traded	Closing Prices	Change on day
Shinagawa Fuel	13.1m	1270	+70
Nippon Steel Corp	9.5m	351	
Nippon Carbon Co	9.4m	512	-11
Nippon Koshuha Stl	8.0m	656	+6
Hitachi	7.9m	995	-15
Toho Zinc Co	7.0m	830	+5
Fujitsu	6.3m	1180	-20
Mitsubishi Heavy	6.0m	825	+8
Old Electric Ind	5.5m	902	-14
Toshiba Corp	5.0m	772	-11

هكذا من الأصل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8277	+0.0124	192 - 361	15.8820	15.5891	15.5842	3.3	15.5402	2.2	-	-	105.6
Belgium	(BFr)	45.6741	+0.0383	314 - 167	45.7410	45.5800	45.5891	2.8	45.3891	2.3	44.6891	2.2	109.0
Denmark	(DKr)	8.6107	+0.0091	061 - 152	8.6251	8.5862	8.5991	1.8	8.5817	1.3	8.5232	1.0	109.3
Finland	(FM)	6.6811	+0.013	736 - 885	6.7060	6.6590	6.6767	0.8	6.6686	0.7	-	-	87.3
France	(FFr)	7.8408	-0.0126	350 - 466	7.8859	7.8280	7.8358	0.8	7.8274	0.7	7.581	0.8	110.2
Germany	(DM)	2.2208	+0.0017	197 - 218	2.2264	2.2147	2.2163	2.5	2.2071	2.5	2.1667	2.4	111.4
Greece	(Dr)	367.109	-0.409	928 - 289	368.150	366.210	-	-	-	-	-	-	66.4
Ireland	(I£)	0.9685	-	679 - 690	0.9698	0.9677	0.9675	1.2	0.9664	0.9	0.9629	0.8	97.4
Italy	(L)	2457.42	-8.84	563 - 921	2470.03	2453.68	2465.87	-4.1	2482.52	-4.1	2555.37	-4.0	71.0
Luxembourg	(LFr)	45.6741	+0.0383	314 - 167	45.7410	45.5800	45.5891	2.8	45.3891	2.5	44.6891	2.2	109.0
Netherlands	(Fl)	2.4872	+0.0035	858 - 886	2.4958	2.4816	2.4813	2.8	2.4709	2.6	2.427	2.4	109.1
Norway	(NKr)	9.8062	+0.0114	004 - 159	9.8783	9.7622	9.7961	1.2	9.7766	1.3	9.6854	1.2	98.0
Portugal	(Es)	232.911	+0.315	758 - 064	233.349	231.770	233.336	-2.2	234.241	-2.3	-	-	95.0
Spain	(Pta)	189.308	+0.454	220 - 395	189.416	188.551	189.793	-3.1	190.738	-3.0	194.963	-3.0	81.7
Sweden	(SKr)	10.1906	-0.0584	822 - 990	10.2832	10.1770	10.1825	-0.2	10.1961	-0.2	10.2113	-0.2	87.7
Switzerland	(SFr)	1.7914	-0.0028	902 - 925	1.7964	1.7890	1.7849	4.4	1.7719	4.4	1.7161	4.2	115.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.0
Ecu	-	1.2081	-0.0036	074 - 087	1.2119	1.2058	1.207	1.1	1.2048	1.1	1.1965	0.9	-
SDR†	-	1.03651	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5392	+0.0003	387 - 398	1.5434	1.5370	-	-	-	-	-	-	-
Brazil	(R$)	1.4889	+0.0008	884 - 894	1.4926	1.4869	-	-	-	-	-	-	-
Canada	(C$)	2.1181	+0.0026	170 - 191	2.1211	2.1149	2.1186	0.8	2.1155	0.5	2.1112	0.3	83.2
Mexico (New Peso)		11.9888	-0.0597	503 - 873	11.9969	11.9503	-	-	-	-	-	-	-
USA	($)	1.5394	+0.0002	390 - 398	1.5440	1.5372	1.5386	0.6	1.537	0.6	1.529	0.7	94.2
Pacific/Middle East/Africa													
Australia	(A$)	2.0748	-0.005	736 - 760	2.0867	2.0732	2.0763	-0.9	2.0801	-1.0	2.0966	-1.1	85.7
Hong Kong	(HK$)	11.9068	+0.0015	029 - 107	11.9424	11.8907	11.8997	0.7	11.8917	0.5	11.8651	0.8	-
India	(Rs)	53.8096	-0.0086	727 - 468	53.9710	53.7560	-	-	-	-	-	-	-
Israel	(Shk)	4.8000	+0.0061	949 - 051	4.8060	4.7876	-	-	-	-	-	-	-
Japan	(Y)	157.188	+0.987	086 - 291	157.370	156.380	156.353	6.4	154.848	6.0	148.506	5.5	141.5
Malaysia	(M$)	3.9170	+0.0056	152 - 188	3.9236	3.9122	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3609	+0.0033	590 - 627	2.3661	2.3591	2.3636	-1.5	2.3706	-1.7	2.395	-1.4	101.2
Philippines	(Peso)	40.3631	+0.025	064 - 198	40.3640	40.4374	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7736	+0.0002	717 - 755	5.7805	5.7657	-	-	-	-	-	-	-
Singapore	(S$)	2.1806	+0.0007	792 - 819	2.1858	2.1790	-	-	-	-	-	-	-
South Africa	(R)	5.6435	+0.0002	412 - 457	5.6570	5.6365	-	-	-	-	-	-	-
South Korea	(Won)	1187.88	+1.12	749 - 328	1190.50	1185.26	-	-	-	-	-	-	-
Taiwan	(T$)	42.0511	+0.0023	378 - 643	42.1790	41.9932	-	-	-	-	-	-	-
Thailand	(Bt)	38.7314	+0.0372	059 - 568	38.8070	38.6760	-	-	-	-	-	-	-

† Rates for Dec 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.1518	+0.0064	489 - 546	10.1680	10.1105	10.1363	1.8	10.1103	1.6	10.0068	1.4	106.5
Belgium	(BFr)	29.6700	+0.02	500 - 900	29.7050	29.5600	29.618	2.1	29.53	1.9	29.225	1.5	108.6
Denmark	(DKr)	5.5935	+0.005	920 - 950	5.6030	5.5894	5.5897	0.8	5.5835	0.7	5.601	-0.1	108.6
Finland	(FM)	4.3401	+0.0078	363 - 438	4.3540	4.3230	4.3351	1.4	4.3254	1.3	4.2976	1.0	88.6
France	(FFr)	4.9935	-0.009	610 - 660	4.9795	4.9510	4.967	-0.6	4.9745	-0.9	4.986	-0.5	109.5
Germany	(DM)	1.4426	+0.0008	423 - 428	1.4452	1.4369	1.4404	1.8	1.4359	1.9	1.4166	1.8	110.7
Greece	(Dr)	238.475	-0.305	420 - 530	238.920	237.380	240.2	-8.7	243.4	-8.3	256.875	-7.7	65.8
Ireland	(I£)	1.5895	+0.0002	890 - 900	1.5934	1.5870	1.5899	-0.3	1.5904	-0.2	1.5865	0.2	-
Italy	(L)	1596.35	-4.7	560 - 710	1603.60	1584.40	1603.2	-5.1	1615.25	-4.7	1673.35	-4.8	70.5
Luxembourg	(LFr)	29.6700	+0.02	500 - 900	29.7050	29.5600	29.619	2.1	29.53	1.9	29.225	1.5	108.6
Netherlands	(Fl)	1.6157	+0.002	152 - 162	1.6200	1.6100	1.6125	2.3	1.6075	2.0	1.5881	1.7	108.5
Norway	(NKr)	6.3714	+0.0063	680 - 748	6.4070	6.3350	6.3692	0.4	6.3609	0.7	6.3438	0.4	97.2
Portugal	(Es)	151.300	+0.16	240 - 360	151.550	150.470	151.675	-3.0	152.445	-3.0	156.05	-3.1	95.1
Spain	(Pta)	122.975	+0.275	950 - 000	123.040	122.420	123.37	-3.9	124.105	-3.7	127.595	-3.8	81.7
Sweden	(SKr)	6.6199	-0.0377	161 - 236	6.6761	6.6196	6.637	-3.1	6.6664	-2.8	6.8039	-2.8	86.6
Switzerland	(SFr)	1.1637	-0.002	632 - 641	1.1665	1.1625	1.1601	3.7	1.1534	3.5	1.125	3.3	115.0
UK	(£)	1.5394	+0.0002	390 - 398	1.5440	1.5372	1.5386	0.6	1.537	0.6	1.529	0.7	82.4
Ecu	-	1.2743	+0.0039	739 - 746	1.2760	1.2716	1.2745	-0.3	1.275	-0.2	1.2756	-0.1	-
SDR†	-	0.67420	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9672	+0.0004	671 - 673	0.9678	0.9670	-	-	-	-	-	-	-
Canada	(C$)	1.3759	+0.0014	756 - 762	1.3761	1.3734	1.3759	0.0	1.3763	-0.1	1.3813	-0.4	82.3
Mexico (New Peso)		7.7750	-0.04	650 - 850	7.7800	7.7600	7.7773	-0.3	7.7805	-0.3	7.7853	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.0
Pacific/Middle East/Africa													
Australia	(A$)	1.3477	-0.0035	473 - 483	1.3515	1.3470	1.3497	-1.8	1.3532	-1.8	1.3719	-1.8	86.1
Hong Kong	(HK$)	7.7347	-0.0003	342 - 352	7.7353	7.7340	7.7354	-0.1	7.7372	-0.1	7.7642	-0.4	-
India	(Rs)	34.9550	-0.01	400 - 700	34.9700	34.9500	35.105	-5.1	35.41	-5.2	36.88	-5.5	-
Israel	(Shk)	3.1181	+0.0035	156 - 206	3.1166	3.1060	-	-	-	-	-	-	-
Japan	(Y)	102.110	+0.625	070 - 150	102.250	101.420	101.595	6.1	100.75	5.3	97.185	4.8	142.7
Malaysia	(M$)	2.5445	+0.0032	440 - 450	2.5455	2.5410	2.5454	-0.4	2.5515	-1.1	2.575	-1.2	-
New Zealand	(NZ$)	1.5335	+0.0019	326 - 344	1.5347	1.5330	1.5366	-2.4	1.5424	-2.3	1.567	-2.2	-
Philippines	(Peso)	26.2200	+0.012	900 - 500	26.2500	26.1900	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	503 - 508	3.7510	3.7506	3.751	-0.1	3.7517	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4165	+0.0002	160 - 170	1.4170	1.4156	1.413	3.0	1.407	2.7	1.3815	2.5	-
South Africa	(R)	3.6660	-0.0035	655 - 665	3.6675	3.6645	3.694	-9.1	3.745	-8.6	3.987	-8.8	-
South Korea	(Won)	771.650	+0.6	900 - 700	771.800	770.900	774.65	-4.7	778.15	-3.4	796.65	-3.2	-
Taiwan	(T$)	27.3196	-0.005	150 - 180	27.3180	27.3180	27.3365	-0.2	27.3765	-0.9	-	-	-
Thailand	(Bt)	25.1600	+0.02	500 - 700	25.1810	25.1340	25.2587	-4.7	25.4625	-4.6	26.345	-4.7	-

† SDR rate per $ for Dec 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 14. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.00	3.50	-
France	5	[illegible]	[illegible]	[illegible]	[illegible]	4.70	-	6.10
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.70	-	6.10
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.98
week ago	4	[illegible]	[illegible]	[illegible]	[illegible]	5.50	3.50	3.98
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	10½	[illegible]	10½	[illegible]	[illegible]	-	9.00	10.67
week ago	[illegible]	[illegible]	[illegible]	10½	10½	-	9.00	10.51
Netherlands	3½	[illegible]	[illegible]	[illegible]	[illegible]	-	3.50	3.40
week ago	[illegible]	3½	[illegible]	[illegible]	[illegible]	-	3.50	3.60
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	2.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	2.00	-
US	[illegible]	[illegible]	[illegible]	5½	[illegible]	-	5.25	-
week ago	[illegible]	[illegible]	[illegible]	5½	[illegible]	-	5.25	-
Japan	[illegible]	½	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	5½	-	-	-
US Dollar CDs	-	5.20	5.32	5.31	5.28	-	-	-
week ago	-	5.20	5.28	5.28	5.23	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	5	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5 - [illegible]
D-Mark	4 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible] - 5	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	9 - [illegible]	9 - [illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 9	[illegible] - 9
Sterling	[illegible]	[illegible]	6½ - [illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	2 - [illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	6 - [illegible]	[illegible]	[illegible]	[illegible]	6 - [illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	10½ - [illegible]	[illegible]	[illegible]	[illegible]
Yen	½ - [illegible]	[illegible] - ½	[illegible]	[illegible] - ½	[illegible]	[illegible]
Asian $Sing	1½ - [illegible]	[illegible]	2½ - [illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others two days notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.21	94.21	-	94.22	94.20	39,011	268,234
Mar	94.59	94.61	+0.03	94.63	94.58	85,376	424,511
Jun	94.80	94.83	+0.03	94.85	94.80	64,752	390,267

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.02	95.05	+0.05	95.07	95.01	461	7,593
Jun	95.23	95.27	+0.06	95.28	95.23	277	2,270
Sep	-	95.27	+0.04	95.25	-	5	36

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.85	16.73	4.863	2.122	5380	5.446	21.48	510.0	414.5	22.31	3.922	2.190	4.638	3.370	344.2	2.645
Denmark	(DKr)	53.04	10	8.874	2.579	1.125	2853	2.888	11.39	270.5	219.8	11.83	2.080	1.161	2.460	1.787	182.6	1.403
France	(FFr)	59.77	11.27	10	2.907	1.268	3216	3.255	12.84	304.8	247.7	13.34	2.344	1.309	2.772	2.014	205.7	1.581
Germany	(DM)	20.56	3.877	3.440	1	0.436	1106	1.120	4.419	104.9	85.23	4.588	0.806	0.450	0.954	0.693	70.78	0.544
Ireland	(I£)	47.13	8.888	7.885	2.292	1	2536	2.567	10.12	240.4	195.4	10.52	1.848	1.032	2.186	1.588	162.2	1.247
Italy	(L)	1.859	0.350	0.311	0.090	0.039	100.	0.101	0.399	9.479	7.705	0.415	0.073	0.041	0.086	0.063	6.398	0.049
Netherlands	(Fl)	18.36	3.462	3.072	0.893	0.390	987.9	1	3.944	93.65	76.12	4.097	0.720	0.402	0.852	0.619	63.21	0.486
Norway	(NKr)	46.56	8.780	7.791	2.264	0.988	2505	2.536	10	237.5	193.0	10.39	1.826	1.020	2.159	1.569	160.3	1.232
Portugal	(Es)	19.61	3.697	3.281	0.954	0.416	1055	1.068	4.211	100.	81.28	4.375	0.769	0.429	0.909	0.661	67.50	0.519
Spain	(Pta)	24.13	4.549	4.036	1.173	0.512	1298	1.314	5.181	123.0	100.	5.383	0.946	0.528	1.119	0.813	83.04	0.638
Sweden	(SKr)	44.82	8.450	7.498	2.180	0.951	2411	2.441	9.625	228.6	185.8	10	1.758	0.981	2.079	1.510	154.3	1.185
Switzerland	(SFr)	25.50	4.808	4.266	1.240	0.541	1372	1.389	5.476	130.0	105.7	5.690	1	0.558	1.183	0.859	87.77	0.674
UK	(£)	45.67	8.611	7.641	2.221	0.969	2457	2.487	9.806	232.9	189.3	10.19	1.791	1	2.119	1.539	157.2	1.208
Canada	(C$)	21.56	4.066	3.608	1.049	0.458	1160	1.174	4.631	110.0	89.38	4.811	0.846	0.472	1	0.727	74.22	0.570
US	($)	29.68	5.595	4.965	1.443	0.630	1596	1.616	6.373	151.3	123.0	6.621	1.164	0.650	1.376	1	102.1	0.785
Japan	(Y)	29.05	5.478	4.861	1.413	0.616	1563	1.582	6.239	148.2	120.4	6.482	1.139	0.636	1.347	0.979	100.	0.768
Ecu		37.81	7.128	6.325	1.839	0.802	2034	2.059	8.119	192.8	156.7	8.435	1.483	0.828	1.753	1.274	130.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6966	0.6929	-0.0022	0.6966	0.6920	7,668	30,147
Mar	0.6986	0.6960	-0.0023	0.6988	0.6950	32,269	48,082
Jun	0.7001	0.6992	-0.0024	0.7001	0.6990	666	2,648

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

Previous day's vol., Calls N/A Puts N/A. Prev. day's open int., Calls N/A Puts N/A

■ Pound in New York

Dec 15	— Close —	— Prev. close —
£ spot	1.5385	1.5435
1 mth	1.5357	1.5428
3 mth	1.5340	1.5421
1 yr	1.5261	1.5380

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Dec 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6½ per cent from December 13, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	[illegible]	[illegible]	6	[illegible]

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.1751pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 30, 1995. Agreed rate for period Dec 26, 1995 to Jan 23, 1996, Schemes II & III 7.29pc. Reference rate for period Nov 1, 1995 to Nov 30, 1995, Schemes IV & V 6.726pc. Finance House Base Rate 7pc from December 1, 1995

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 15	Dec 8		Dec 15	Dec 8
Bills on offer	£1500m	£1500m	Top accepted rate	6.1769%	6.2371%
Total of applications	£4556m	£4280m	Ave. rate of discount	6.1751%	6.2261%
Total allocated	£1500m	£1500m	Average yield	6.2717%	6.3263%
Min. accepted bid	£98.460	£98.445	Offer at next tender	£1500m	£1500m
Allotment at min. level	71%	48%	Min. accept. bid 182 days	-	-

BASE LENDING RATES

[illegible]

BANK RETURN

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

FT GOLD MINES INDEX

	Dec 15	% chg since 30/12/94	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (34)	1902.38	-3.7	47.72	100.00	1.80	-	2083.86	1637.91
■ Regional Indices								
Africa (15)	2432.10	-23.8	13.13	27.51	3.84	25.46	3191.21	2272.74
Australasia (6)	2398.32	-2.3	6.08	12.74	2.08	38.14	2607.57	1788.20
North America (12)	1885.70	+0.1	28.52	59.75	0.80	47.46	1831.00	1348.18

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LONDON RECENT ISSUES: EQUITIES

[illegible]

					Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	14.7	28	25	†Manx & O'seas	25		-	-	-	-
-	F.P.	21.2	99	93½	Marlin Curve Jp	96		-	-	-	-
-	F.P.	2.45	36	29	Do Warrants	36	+1	-	-	-	-
204	F.P.	3,432.7	214½	202	National Grid	203	-1½	Wv11.23	2.3	6.9	9.1
200	F.P.	79.4	260	200	Peptide Th'peutics	234		-	-	-	-
-	F.P.	88.6	365	345	†Pet City	365	+5	-	-	-	-
-	F.P.	1.07	105	100	†Revelation P'dilly	100		-	-	-	-
-	F.P.	194.3	48	36	†Trocadero	46	+2	-	-	-	-
-	F.P.	47.8	67	55	Wilmington	67	+3	v-	-	-	31.5

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995 High	Low	Stock	Closing price p	+or-
34	Nil	19/12	7pm	6pm	Allied Leisure	7pm	
‡r10p	Nil	5/1	3pm	2pm	Dunlop House	2pm	
34	Nil	2/1	9½pm	8½pm	Melrose	8½pm	
5	Nil	15/1	2½pm	¼pm	Forespur	¼pm	
50	Nil	27/12	4pm	2pm	TBI	3pm	
97	Nil	18/12	16pm	5pm	Television Corp	6pm	

pm premium.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

هكذا من الاصل

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Citimarkets SA

Merrill Lynch Asset Management - Contd.

Royal Skandia Life Assurance Ltd (z)

Chescor Indian Investment Company Ltd

Global Asset Management - Contd.

Magnum Funds

Republic Funds

OTHER OFFSHORE FUNDS

LUXEMBOURG (REGULATED)

OFFSHORE INSURANCES

Lloyds Bank Fund Managers (Guernsey) Ltd				
NAV Fully Paid Dec 8	$11.07		-	44333
Wells Fargo U.S. IT Fund				
Worldwide Limited				
NAV Oct 31	$70.88		-	[illegible]
Xiphias International Investment Fd Ltd				
Zanett Lombardier Ltd				
NAV Dec 1	$124.73		-	[illegible]
Zweig-DiMenna International Limited				
NAV Nov 30	[illegible]		-	-

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(*) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(▲) - 1401 to 1700 hours
(●) - 1701 to midnight
E - Exit charge on sale of units.
G - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
b - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
x - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
c - Offered price includes all expenses except agent's commission.
y - Previous day's price.
∇ - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies.
◆ - Yield column shows annualised rates of NAV increase.

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		89¼	—	8%	—	Jun Dec	11'94	1757
Cazer Allen	♣†v	437xd	-0	30.6	2.0	Jun Aug	11.12	2081
Close Bros	♣v□	325	-3	8.7	2.5	Apr Nov	0.10	2166
Garrard & Nat	♣v	403xd	—	22.5	1.3	Jul Dec	13.11	2865
Hambros	v□	206xd	-1.5	7.5	-	Aug Dec	27.11	2812
7½pc Cv Pf		169	4.2	7½%	—	Oct Apr	4.0	4588
Joseph (L)	♣†v	460xd	0.3	18.75	1.0	Sep Jan	11.12	3080
King & Shaxson	♣v□	141	2.9	0.6	1.4	Jan Jul	26.6	3098
Rea Brothers	♣v	50	8.7	1.8	2.4	May Sep	14.8	3785
Schroders	♣†m□	1338	0.4	14.17	5.1	May Oct	18.9	3899
NV	†m	1135	-4	14.17	5.1	May Oct	18.9	3901
Singer & Fried	♣†v□	110½	0.9	3.7	2.7	Nov Jun	25.9	4028
8½pc Cv Ln 09/14		£135¾	-20	8½%	-	-	10.10	4645
Union	♣v□	109	-3.8	3.8	-	Apr Aug	31.7	4353
Wintrust	♣v	270	6.7	11.35	1.5	Mar Oct	28.8	4924

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INV TRUSTS SPLIT CAPITAL

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

Toronto-Dom		11⅞xd	-2.5	1a	JaAp.JyOc	13.12	1207
Trans Can Pipe	♥	8⅝	0.4	84c	JaAp.JyOc	12'93	-

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Anglo Am Ind		£31⅛	.....	0470c	2.4	Oct Apr	3'93	-
Barlow	♣	[illegible]	-1.2	084c	♦	Jan Jul	11.12	-
Gold Flds Prop R		158	-.8	080c	2.1	Feb Sep	1'94	-
HK Props.		82	.....	067.1c	-	Feb Sep	10'93	-
SASOL	♥	511	-4.1	078c	-	Oct	9'93	-
SA Brews.		£23¹⁄₂xd	1.4	0200c	2.1	Jun Dec	27.11	-
Standard Bank	□	[illegible]	-1.8	0264c	3.1	Sep Mar	-	-
Tiger Oats		1180xd	.....	4186c	♦	Jan Aug	11.12	-
Tongaat-Hulett	†	107110	3.7	0110c	2.7	Jan Jun	4.12	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesday-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Assumed dividend. e Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend; cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Pre ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service. **Additions:** Vero Grp (El & Elect) and Flomerics (AIM). **Deletions:** Bk of Scot New 9 1/4pc Pf (Banks), London Smllr Co's (Inv Tst), Chiltern Radio (Media) and Baltic Ord & Prf (Other Fncl).

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close December 15

1995 High	1995 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
20 7/8	12 1/8	AAR	0.48	2.3	29	268	u21 1/8	21 5/8	21 1/4	+3/8
46 1/4	30	AMP	0.92	2.4	19	12574	39	38 1/2	38 1/2	-7/8
80 1/4	53 3/8	AMR			17	10083	76 1/2	75 3/8	75 1/2	-1
47 7/8	36 3/8	ASA	1.71	4.5	25	838	38 1/2	37 1/2	38 3/8	+1/2
44 3/4	30 3/4	AbbotL	0.84	2.0	20	28172	41 7/8	41 1/2	41 5/8	-1/8
18 7/8	12	Abitibi Pr	0.40	2.7	7	1213	14 7/8	14 5/8	14 1/8	-1/4
28 1/2	21	ABM Ind	0.60	2.1	15	132	28 1/4	27 3/8	28	+1/4
17 1/2	13 1/8	Acpthcein			10	329	15 1/2	15 1/8	15 1/8	-1/8
40	21 7/8	ACE Ltd	0.58	1.5	8	1631	38 1/2	38 1/8	38 1/4	-1/4
9 7/8	8 1/8	ACM Gvt In x	0.90	9.6	0	389	9 1/2	9 3/8	9 3/8	-1/8
7 3/4	6 1/2	ACM GvOpp x	0.66	9.1		133	7 3/8	7 1/8	7 1/4	
7 1/2	5 3/4	ACM Gvt Sp x	0.75	11.1		647	6 3/4	6 5/8	6 3/4	
8 3/4	7 1/8	ACM Gvt Sv x	0.80	10.7		396	8 1/2	8 3/8	8 3/8	
9 1/2	7 5/8	ACM Man x	0.80	10.3		101	8 7/8	8 3/4	8 3/4	-1/8
29 1/4	10 1/4	AcmeClv	0.48	2.9	29	3713	16 3/4	16 1/8	16 3/4	-3 1/4
36 3/4	7 1/8	Acme Elect			69	287	6 5/8	6 1/4	6 3/8	-1/8
34 1/2	23 3/4	Acordia	0.72	2.5	15	132	29 1/8	28 7/8	28 7/8	+3/8
18 3/4	10 1/8	Acuson			38	573	12 1/4	11 5/8	12 1/4	+5/8
19 5/8	15 3/8	Adams Expr	0.48	2.6	0	380	18 5/8	18 3/8	18 1/2	+1/8
38 7/8	27 1/8	Advdlic			5	11511	18 5/8	18	18 1/4	-1/8
9 1/4	5	Advest Grp	0.16	1.6	12	90	9 1/8	9	9	
27 1/2	16 1/2	Advo Inc	0.10	0.4	19	1092	25 7/8	25 1/8	25 3/4	+1/4
42 7/8	24.80	Aegon	1.28	3.9	10	99	u42 3/4	42 1/8	42 3/8	+1 3/8
5 7/8	3 3/8	Aerflex			7	124	4	3 7/8	3 7/8	
78 3/4	46 3/4	AetnaL	2.76	3.9	34	10189	71 3/8	70 3/8	71 3/8	+1 5/8
[illegible]										

- A - (continued) [illegible]

- B - [illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

- R - [illegible]

- S - [illegible]

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4 pm close December 15

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg Prev. Close
Continued from previous page										
37⅞	30½	SFe/Pipe	3.00	8.1	11	84	37	36¾	36⅞	-⅛
33¾	24¼	SicaLee	0.68	2.0	20	13021	33⅝	33¼	33⅝	+⅛
57½	38⅝	SBC Cm	1.65	2.9	19	17705	u57½	56⅞	57¼	+⅛
27	20½	Scana Corp	1.44	5.5	18	1069	26⅝	25⅞	26⅝	+⅛
16	14½	Scecp	1.00	6.0	10	15829	16¾	16½	16⅝	+¼
11¼	6	SchawkA	0.26	4.2	15	205	6½	6	6⅛	
50¼	37¼	ScheraPP			23	253	44⅝	44½	44⅝	
60⅝	35½	SchrPl	1.16	2.6	20	15484	57⅞	56⅝	56⅝	-1¼
69⅞	50⅛	Schlmb	1.50	2.2	25	2167	68¾	68⅛	68⅝	
28	11¼	Schwab(C)	0.16	0.8	20	11057	19⅝	18⅞	19½	+⅛
23⅝	20⅜	SchwMaud				1739	23⅜	22¼	23	+⅜
24⅞	11⅜	SciAtl	0.06	0.4	19	7771	14⅝	14⅛	14⅛	-¼
20	15⅛	Scotsman	0.10	0.6	11	545	17½	16¾	17¼	+½
40⅝	26⅞	Scripps	0.52	1.3	27	64	38⅞	38½	38⅝	-⅜
21½	13⅜	ScuddrNAsF	0.02	0.1		463	15¼	14⅞	14⅞	-⅜
11⅜	8⅝	ScuddrNEaF x	0.16	1.5		273	11¼	11	11	-⅛
20	13⅞	SeaCntB	0.70	4.1	1	14	17⅛	17⅛	17⅛	
19¼	14⅝	SeaCt.4625	1.46	2.0		7	15⅝	15¼	15¼	
54¾	22⅝	S'gate			10	14609	48⅝	46⅝	47	-1⅞
39½	25⅝	Seagram x	0.60	1.7	26	11266	35⅞	35½	35⅝	-⅝
22½	16¼	Seagull En			88	3119	20⅝	20⅛	20½	+⅝
30¾	10	Sealed Air			23	808	28	27¾	27¾	-½
48¾	30⅝	SearsR	0.92	2.2	10	19019	40½	39⅝	40⅜	-⅝
20½	16⅜	SecCapStl	1.24	6.3	20	358	19⅝	19½	19⅝	
12⅞	10⅜	Seligm Sel x	0.84	6.7		123	12½	12¼	12½	+⅛
38¾	17¾	Sensormat	0.22	1.2	17	13492	19⅛	d17⅝	18¾	+⅝
32⅛	21¼	SequaA	0.60	2.1	12	204	28⅝	28	28½	+⅛
38½	23	SequaB	0.50	1.3	21	16	u38⅝	38⅛	38⅝	+¼
43¾	28¼	ServCp	0.44	1.0	23	4190	42½	41⅞	42½	+⅛
30⅞	21½	SvMstr	0.98	3.2	14	183	29⅞	29⅝	29⅝	
10⅛	5¾	Windmere	0.20	3.2	17	756	6⅝	6⅛	6⅛	-¼
37⅝	25½	WinnDx x	0.90	2.4	23	4708	36¾	36	36¾	+¼
10⅞	7¾	Winnebago	0.40	5.0	7	242	8⅛	8	8	-⅛
30½	25¾	WiscEn	1.47	5.0	13	1604	29⅞	29½	29⅝	-⅛
15	10⅞	WiserO	0.40	3.2	11	231	12⅝	12⅜	12⅝	+⅜
35⅝	24¼	Witco Corp x	1.12	3.7	11	1131	30¼	29⅝	30¼	+¼
27¾	10	WMC ADR	0.60	2.2	166	23	27⅛	26⅞	27	-¼
32½	25¾	WMX T	0.06	2.0	19	15884	30	29⅝	29¾	-⅜
34	15½	Wolverine	0.14	0.4	25	859	u34	32⅞	33	-1
19⅞	12¾	Woolwth	0.60	4.2	54	6322	14¼	14	14¼	+⅜
16½	13¼	World Wide	0.10	0.6		40	u16½	16⅜	16⅜	-⅛
13⅝	7¼	Worldcorp			4	119	10¼	10⅛	10⅛	-⅛
32⅝	28¾	WPS Re	1.88	5.7	14	123	u32¾	32⅜	32½	+⅛
52¼	42⅞	Wrigley	0.60	1.3	29	3617	u54	51¼	53¼	+2
46½	19⅜	Wyle Labor x	0.28	0.7	15	541	38⅛	37½	37½	-⅛
30	16½	Wynns Intl x	0.52	1.7	12	296	u30⅛	29⅝	29⅞	+⅜
- X - Y - Z -										
146⅝	90½	Xerox	3.00	2.2	18	5005	136⅛	134	135⅝	-¼
52½	42	Xtra Corp	0.84	1.5	12	303	42⅞	42½	42⅞	
25	18½	Yankee Egy x	1.28	5.1	20	121	u25	24¾	24⅞	-⅛
48½	34⅛	York Intl x	0.24	0.5	16	895	45⅜	44⅝	44⅞	-⅝
4½	2½	Zapata	0.14	4.1	7	245	3½	3⅜	3⅜	+⅜
12⅛	6⅞	ZenthEl			4	676	7¼	7⅛	7⅛	
24⅝	19⅜	Zenith Nat	1.00	4.8	29	150	20⅞	20⅝	20⅞	+⅜
6⅞	6⅛	Zeus Inc	0.72	10.9		198	6⅝	6½	6⅝	
16⅞	12⅝	Zero	0.44	2.7	16	949	u16⅞	16½	16½	-⅜
28	16⅞	Zurn Ind x	0.40	1.6	22	507	25¼	24⅝	24⅞	-¼
11½	10¼	Zweig Fund	1.12	9.8		425	u11½	11⅜	11⅜	
9	7⅞	Zweig Totl x	0.84	9.7		308	8⅝	8½	8⅝	-⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sh-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close December 15

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Board		14	2	2¼	2¼	2¼	
Blnks Man	0.40	17	14	23⅞	23¾	23⅞	-⅛
Bio-Rad A		13	63	40⅝	39⅝	39⅝	-½
Bowmar		5	208	2⅞	2¾	2⅞	+⅛
Bowne x	0.36	14	176	20½	19¾	19¾	-½
Brascan A	1.04	21	134	17⅝	17⅛	17⅝	+⅜
Calprop		25	14	¾	¾	¾	
Cambrex	0.20	13	39	38¼	38	38⅛	
Can Marc	0.14	29	37	10	9⅞	9⅞	+⅛
Cntrl FdA	0.01		190	4⅝	4½	4⅝	
Cominco	0.30	14	34	21⅛	20⅝	21⅛	+¼
CmpTch		82	35	9⅛	9	9⅛	
Compdecs		18	53	2¼	2⅛	2¼	
Concd FbA		5	8	3⅞	3¾	3⅞	
CrossAT A	0.64	21	160	15⅝	15¼	15¼	-⅜
Fab Inds	0.70	15	75	30¼	29⅞	30⅛	+⅛
Fina A	2.40	10	37	50½	50⅛	50½	
FstCityBnc	0.20	60	20	25¼	25¼	25¼	
Forest La		18	979	44⅞	44	44⅜	-¼
Frequency		34	356	6	6	6	
Garan	0.80	15	137	17	16⅝	17	+½
Giant FdA	0.74	10	1448	32¾	32½	32⅝	+¼
Glatflr	0.70	10	880	16½	16	16⅜	-⅛
Goldfield		7	61				
Gulf Cda	0.34	5	180	4	4	4	
HanDir		15	2010	1⅞	1⅞	1⅞	+⅛
Hasbro	0.30	19	5794	30½	30¼	30⅜	-⅛
Lumex Inc		27	140	9½	9¼	9¼	-⅛
Lynch Cp		18	10	61½	60½	60½	-1½
Maxxam		33	84	36	36⅝	36¼	+⅜
Media A	0.48	19	407	30	29¼	30	
Merc Co x	0.20	5	20	3	d2⅞	3	
Mitramedia		5	2348	15⅝	14¾	14⅞	-½
MiteLd			7	7	7	7	
Moog A		16	34	14⅝	14⅜	14⅝	+¼
MSR Expl		15	55	1⅛	1	1	
NatPatDev		39	383	9	8	9⅛	
NY TmsA	0.60	20	4178	30⅛	29⅞	30	
NumacE		108	33	4⅛	4	4⅛	
Triton		9	240				
Tubos Mex		10	337	6⅞	6¾	6¾	-⅛
TurnBcA	0.07	78	190	25⅞	25⅛	25¼	-½
TurnBrB	0.07	80	755	26½	25¼	25⅝	-½
UtdFoodsA		4	8	1⅞	1⅞	1⅞	
UtdFoodsB	0.20	37	38	1⅞	d1¾	1⅞	
US Cellul		33	85	33⅜	33⅛	33⅛	-⅜
ViacomA		152	2384	46	45⅜	45⅝	-⅜
ViacomB			21082	46⅝	46⅛	46⅛	-⅛
WRET	1.12	16	330	10⅞	10⅝	10⅝	-⅛
Xytronix		2	48	1½	1⅜	1½	

NASDAQ NATIONAL MARKET

4 pm close December 15

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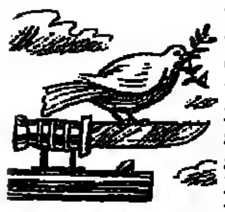
FT GUIDE TO THE WEEK

MONDAY 18

Nato forces enter Bosnia



Weather permitting, the first wave of 60,000 Nato troops is to arrive in Bosnia following the formal approval by the alliance, the United Nations and the rival Balkan presidents of a comprehensive peace agreement for former Yugoslavia. The deployment is part of a one-year mission to preserve Bosnia as a unified state divided into roughly two ethnic parts. The national groups will maintain their own armies. Heavy snow and winter fog so far have slowed the despatch of advance teams, underscoring the slew of problems facing the Nato-led Implementation Force (IFOR). Meanwhile, in a series of meetings aimed at creating stability, a conference meets outside Bonn to outline steps for disarming the armies. The delegates will represent the contact group members, Nato and European Union countries, the former warring parties and, as chairman of the Islamic conference, Morocco.

EU to reform rice regime

European Union agriculture ministers discuss final details of the reform of the rice regime (to Dec 20). The Commission has proposed prices be lowered and compensatory payments introduced. However, rice-producing countries argue the reforms are too severe. The agriculture council will also discuss the extension of agrimonetary compensation to Finland and Sweden, as well as proposals for regulating the potato market.

Saleroom

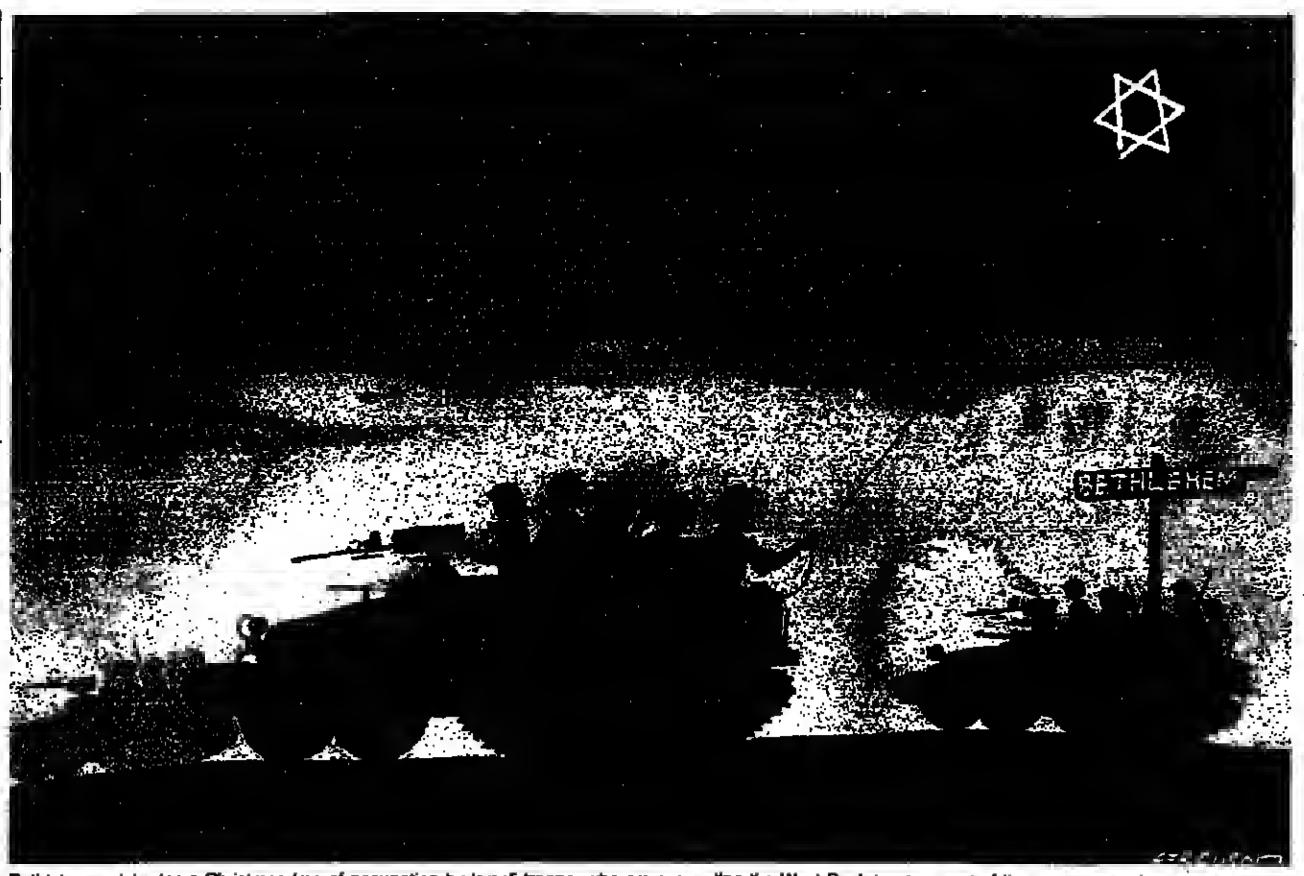
The Oscar awarded to the writer Herman Mankiewicz for his screenplay of *Citizen Kane* comes under the hammer at Christie's in New York. Bids of about $200,000 (£127,000) are anticipated. Orson Welles's celebrated film, one of the most respected of all time, collected nine Academy Award nominations in 1942. However, this was the only Oscar it actually received.

Berisha visits Germany

President Sali Berisha of Albania begins a visit to Germany (to Dec 21), his second since elected in 1992. Talks are planned with leading politicians including Theo Waigel, finance minister. Mr Berisha will be hoping to secure German investment and further support for economic reforms. Also on the agenda will be the status of 20,000 Albanians in Germany, who are mostly illegal immigrants but send home large amounts of foreign exchange.

Former president on trial

The former South Korean president, Roh Tae-woo, and eight business leaders go on trial for bribery charges connected with the nation's biggest corruption scandal. Mr Roh is accused of accepting nearly $400m (£253m) from 35 leading corporations for government contracts during his 1988-1993 term. Businessmen indicted include the chairmen of the Samsung and Daewoo industrial groups.



Bethlehem celebrates a Christmas free of occupation by Israeli troops, who are evacuating the West Bank town as part of the peace accords

Australia-Indonesia pact

Australia and Indonesia sign their first formal defence alliance, promising to hold regular ministerial meetings on strategic matters and to take concerted action when necessary and "appropriate". The agreement will be signed in Jakarta by the foreign ministers, in the presence of President Suharto of Indonesia and Paul Keating, Australia's prime minister.

Holidays

Israel, Nigeria.

TUESDAY 19

OECD releases report

The Organisation for Economic Co-operation and Development releases its half-yearly report on the state of the world's economy. The analysis of the OECD, which acts as a think tank for 25 industrialised nations, will be read closely for its judgment about whether world growth is slowing or not. In recent months the OECD has downgraded its forecasts for countries such as Japan.

FOMC considers rate cut

The Federal Reserve's policy-making open market committee meets in Washington to discuss US interest rates. Against a backdrop of sluggish economic growth and subdued inflation, Fed governors and regional presidents are thought to be considering a cut in short-term interest rates of a quarter or half a point. Some economists expect the Fed to cut rates modestly even if Congress and the White House have not reached agreement on a deal to balance the federal budget.

Rabin murder trial starts

The murder trial starts of Yigal Amir, charged with assassinating Yitzhak Rabin, the former Israeli prime minister. Three other alleged participants in an assassination conspiracy are to be tried later.

FT Survey

Morocco.

WEDNESDAY 20

Dini outlines EU proposals

Italy's prime minister, Lamberto Dini, is to present his proposals for Italy's six-month presidency of the European Union to the Senate. Italy, which takes over the stewardship from Spain on January 1, is expected to launch a far-reaching review of the 15-nation bloc's institutions.

Hopes for BCCI settlement

Luxembourg's Superior Court is to announce whether it will sanction the withdrawal of an appeal by four former employees of the failed Bank of Credit and Commerce International. The withdrawal could finally open the way for a global settlement for all creditors. The bank's liquidators hope the court ruling will help clear the way for a first dividend to creditors of 20p in the pound by late 1996. Although all parties to the settlement are optimistic, progress has been dogged by legal hitches.

The settlement is based on a $1.8bn (£1.13bn) offer from the government of Abu Dhabi, the bank's principal shareholder. The total number of creditors of the BCCI, which failed in 1991 with debts of $10bn, is still unknown.

Draft budget in Japan

Japan's foreign ministry is expected to issue a draft budget, proposing a rise of just over 2 per cent in general spending to Y43,000bn (£275bn) for the year starting April. This would be the smallest increase in seven years and results from the low tax revenues from the weak economy. Even with the small rise, the ministry expects to issue at least Y10,000bn of deficit bonds to cover a shortfall.

It is proposed defence spending should rise by less than the average, to the anger of the dominant Liberal Democratic party. The increase in the foreign aid budget, the world's largest, would be 3 per cent.

FT Surveys

Sandi Arabia, Slovakia.

Holidays

Indonesia, Malaysia.

THURSDAY 21

EU fishing quotas set

Fishing quotas for next year are to be decided at what is annually the most important EU fisheries council (to Dec 22). With scientists proposing massive quota reductions to conserve stocks, British fishermen would face cuts of 50 per cent for some species. Policing the western waters around Ireland, to be opened to Spanish and Portuguese fishermen on Jan 1, will also be discussed.

Holidays

Malawi.

FRIDAY 22

US bases in Okinawa

The first hearing opens in the suit filed by the Japanese prime minister, Tomiichi Murayama, to force the Okinawa governor, Masahide Ota, to sign lease contracts for land used by US military forces. Mr Ota refused to sign the documents after an outcry from residents of Okinawa, an island in southern Japan, over the alleged rape by three US servicemen of a 12-year-old girl. The governor has called for the US bases to close and said he would not sign the documents even after a court order.

Holidays

Canada, Guatemala, United States.

SATURDAY 23

Polish president sworn in

Poland's new president, Aleksander Kwasniewski, a former communist, takes office against vigorous protests from the right-wing opposition. Lech Walesa, the outgoing head of state who has yet to congratulate Mr Kwasniewski on his narrow election victory, says "formal and moral reasons and respect for the republic" prohibit his presence at the swearing-in. The opposition argues Mr Kwasniewski committed an offence by lying in his official election document that he had a university degree.

Holidays

Japan (Emperor's Birthday, Saturday).

SUNDAY 24

Arafat at Bethlehem mass

Yasser Arafat, the Palestinian leader, will celebrate Christmas Eve mass in Bethlehem's Church of the Nativity, marking the first Bethlehem Christmas free of Israeli troops of occupation since the Six Day War in 1967. Mr Arafat will try to rally Palestinian Christians behind his campaign to be elected president of the Palestinian Council on January 20. Bethlehem is the sixth West Bank town to be left by Israeli soldiers under the peace accords.

General election in Turkey

Turkey's 34.4m voters go to the polls in an election that may transform the Islamic fundamentalist Refah party into the country's largest party, possibly taking one quarter of the seats in the 550-member parliament. Although Refah has few chances of taking power – because mainstream parties will form a coalition government – the elections could end the short political career of Tansu Çiller, who became prime minister in 1993. She called snap elections hoping to win a parliamentary majority for her True Path conservative party.

DECEMBER 25-31

Monday 25
Holidays: Main markets closed for Christmas Day.

Tuesday 26
Cuban parliament: Cuba's National Assembly holds its second ordinary session of the year. On the agenda will be the 1996 budget, in which government spending is likely to be reined in further.

Horse racing: King George VI Chase, Kempton Park racecourse, England.

Cricket: Fourth Test match, South Africa v England, Port Elizabeth, South Africa (to Dec 30).

Holidays: Main markets closed.

Wednesday 27
Israel-Syria peace talks: Israel and Syria resume peace talks at a secret location near Washington after a six-month break. The talks, focused on an Israeli withdrawal from the occupied Golan heights in return for full peace with Syria, are a fresh effort to resolve the conflict blocking a comprehensive Middle East peace. The talks, under US auspices, will seek to break the procedural logjam and pave the way for a second round in early January as well as an eventual summit.

Holidays: Botswana, Canada, Ireland, United States, Vatican.

Thursday 28
Chess: Hastings centenary congress, Hastings, England (to Jan 5).
Holidays: Costa Rica, Nepal.

Friday 29
Holidays: Brazil, Canada, Costa Rica, Guatemala, Mexico, Peru, United States.

Saturday 30

Aids lottery: The deadline falls for participation in a US lottery which will award its winners treatment with the latest experimental Aids drug, Ritonavir. The drug is intended to block HIV, the Aids virus, from reproducing. Only 2,000 patients will be chosen to receive the drug.
Holidays: Costa Rica, El Salvador, Philippines.

Sunday 31
Palestinian election: Palestinians kick off a 21-day election campaign for their first elections. Voters will elect 83 members of a legislative council in 16 constituencies. A separate poll will be held for the council's president. Election officials expect up to 1,000 candidates.
Holidays: Bangladesh, Oman, Pakistan, Qatar.

Compiled by Simon Strong
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ECONOMIC DIARY

Other economic news

Monday: Britain's public sector borrowing requirement is expected to have been £2.8bn last month after October's repayment. German inflation figures published this week are expected to show a rise in the annual rate of wholesale price inflation but a drop in producer price inflation.

Tuesday: Economists think that US chain-weighted gross domestic product grew at a faster rate in the third quarter of the year than it did in the second quarter. US housing starts are forecast to have picked up slightly last month.

Wednesday: The UK's visible trade deficit with countries outside the EU is thought to have narrowed slightly last month. UK M4 money supply growth is expected to have slowed.

Thursday: The UK is expected to record a current account balance of payments deficit in the third quarter of the year. The Federal Reserve Bank of Philadelphia's index of business activity is forecast to have risen this month.

Friday: Italy's unemployment rate is forecast to have fallen slightly in October. Analysts expect US consumer confidence to have picked up slightly this month.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Dec whl.sale price indx 1st 10 days	-	-
Dec 18	UK	Nov public sector borrowing req.	£2.8bn	-£1.3bn
	Canada	Oct manufacturing new orders	0.1%	-0.5%
Tues	Japan	Oct overall pers. consumer exp**	0.1%	-0.2%
Dec 19	Japan	Oct pers. cons. expendit. workers**	-	2.4%
	Japan	Oct income - workers**	-	1.2%
	Japan	Nov money supply (M2/CD)**	3.1%	2.8%
	Japan	Nov broad liquidity**	-	3.7%
	US	Q3 GDP preliminary	3.2%	3.0%
	US	Revised GDP (1993-1995)	-	-
	US	Q3 GDP deflator preliminary	2.0%	2.0%
	US	Q3 after-tax corporate profit	0.8%	0.8%
	US	Nov housing starts	1.35m	1.34m
	US	Nov building permits	-	1.4m
	US	Johnson Redbrook w/e 16 Dec	-	-2.0%
Wed	France	Oct industrial production*†	0.1%	-1.8%
Dec 20	France	Oct manufacturing production*†	0.3%	-2.0%
	UK	Nov build.soc.net new com.ts	£3.0bn	£2.9bn
	UK	Nov trade ex-EC	-£950m	-£1182m
	Spain	Q3 GDP**	3.0%	3.2%
	US	Oct trade: goods and services	-$9.0bn	-$8.3bn
	US	Oct gds and servs-export (BofP)	$67.0bn	$67.2bn
	US	Oct gds and servs-import (BofP)	$76.0bn	$75.6bn
Thurs	UK	Q3 GDP***	0.4%	0.4%
Dec 21	UK	Q3 GDP**	2.1%	2.1%
	UK	Q3 savings ratio	-	9.3%
	UK	Q3 current account	-£1.9bn	-£2.4bn
	US	Nov personal income	0.2%	0.3% (estim)
	US	Nov pers consumer expenditure	0.6%	0.1% (estim)
	US	Initial claims w/e Dec 16	365K	341K
	US	State benefits w/e Dec 9	-	2,566K
	Canada	Oct wholesale trade†*	0.5%	1.2%
	US	Dec Philadelphia Fed index	-	7.9
	US	Nov treasury budget	-$36.0bn	-$22.8bn
	US	M2 w/e Dec 11	$1.0bn	-$0.9bn
Fri	France	Oct trade balance†	FFr7.0bn	FFr7.9bn
Dec 22	US	Dec Michigan sentiment final	-	90.5
	Canada	Oct real GDP - factor cost*	0.1%	0.2%
	Canada	Oct fix-weight employee earnings	2.5%	2.8%
	Germany	Dec Bavaria Col(new)**	-	1.5%
	Germany	Dec Hesse Col (new)**	-	1.6%
During the week...				
	Germany	Nov producer price index pan-Ger**	1.4%	1.6%
	Germany	Nov producer price index pan-Ger*	0.1%	-0.1%
	Germany	Nov import prices*	-	-0.6%
	Germany	Nov import prices**	-	-0.2%
	US	Oct US trade balance with Mexico	-	-$1.29bn
	Japan	Dec trade balance (1st 10 days)	-	$2.7bn
	Mexico	Oct retail sales**	-	-28%

*month on month, **year on year, ***qtr on qtr, †seas adj *Statistics, courtesy MMS International.*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 17.12.95 Pool purchase price £/MWh	Final Prices for Trading on 19.11.95 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.09	9.11	9.11
0100	16.00	23.68	24.88
0130	24.14	23.68	24.88
0200	24.14	23.68	24.88
0230	24.14	23.68	24.88
0300	24.14	18.30	19.51
0330	24.14	18.30	19.51
0400	16.01	16.32	17.53
0430	14.00	8.94	10.15
0500	8.07	8.94	10.15
0530	12.56	8.95	10.16
0600	12.56	8.95	10.16
0630	12.36	8.95	10.16
0700	12.36	8.95	10.16
0730	12.56	8.95	10.16
0800	12.56	8.95	10.16
0830	12.36	8.95	10.16
0900	12.56	8.95	10.16
0930	12.56	16.54	17.74
1000	13.94	16.54	17.74
1030	13.84	16.84	18.05
1100	16.00	18.42	19.62
1130	16.01	18.42	19.62
1200	18.01	32.69	33.90
1230	16.01	37.93	39.13
1300	16.01	18.42	19.62
1330	16.01	18.42	19.62
1400	16.00	17.31	18.52
1430	16.00	16.84	18.05
1500	13.94	9.13	9.13
1530	13.94	9.02	9.02
1600	13.94	9.09	9.09
1630	18.80	21.14	22.34
1700	33.74	19.23	20.44
1730	33.76	46.14	47.35
1800	33.75	46.14	47.35
1830	29.52	46.14	47.34
1900	29.50	26.54	27.75
1930	16.58	25.61	26.81
2000	16.58	19.23	20.43
2030	16.56	21.14	22.34
2100	16.56	17.31	18.52
2130	13.84	17.31	18.52
2200	13.94	16.96	18.17
2230	13.62	16.96	18.17
2300	13.62	16.96	18.17
2330	9.06	9.04	9.04
2400	9.02	9.02	9.02

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6765 between 8:30am and 5:15pm Monday to Friday.
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1/2 hour period ending	Provisional Price for Trading on 18.12.95 Pool purchase price £/MWh	Final Prices for Trading on 20.11.95 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.06	9.07	9.07
0100	13.37	26.80	29.56
0130	16.01	26.80	29.56
0200	16.01	26.80	29.56
0230	13.62	26.80	29.56
0300	16.00	16.70	19.46
0330	16.00	16.70	19.46
0400	13.62	8.95	11.71
0430	9.04	8.95	11.71
0500	13.37	8.95	11.71
0530	12.22	9.02	9.02
0600	32.10	9.00	9.00
0630	13.01	9.12	9.12
0700	26.02	35.08	37.86
0730	32.91	39.15	42.03
0800	34.02	36.74	39.84
0830	34.84	58.22	61.44
0900	36.49	58.67	62.01
0930	40.22	49.15	52.41
1000	56.76	48.88	52.07
1030	58.79	39.96	43.05
1100	43.47	35.59	39.60
1130	42.61	39.72	42.73
1200	41.65	39.78	42.81
1230	40.36	36.58	39.59
1300	39.31	36.44	39.42
1330	35.79	36.17	39.06
1400	36.45	36.08	38.94
1430	26.84	35.96	38.82
1500	36.31	35.97	38.82
1530	29.11	14.48	14.48
1600	70.62	17.18	17.18
1630	203.76	141.32	167.62
1700	348.99	280.70	327.61
1730	374.11	363.50	408.88
1800	277.69	296.22	330.65
1830	138.39	148.90	161.01
1900	70.77	68.68	74.67
1930	44.14	50.99	55.75
2000	37.43	41.18	44.56
2030	32.52	39.11	41.97
2100	32.37	38.84	41.63
2130	32.35	38.60	41.57
2200	32.34	35.05	37.83
2230	32.34	21.75	24.52
2300	26.00	20.89	23.66
2330	18.01	20.89	23.66
2400	13.06	20.89	23.66

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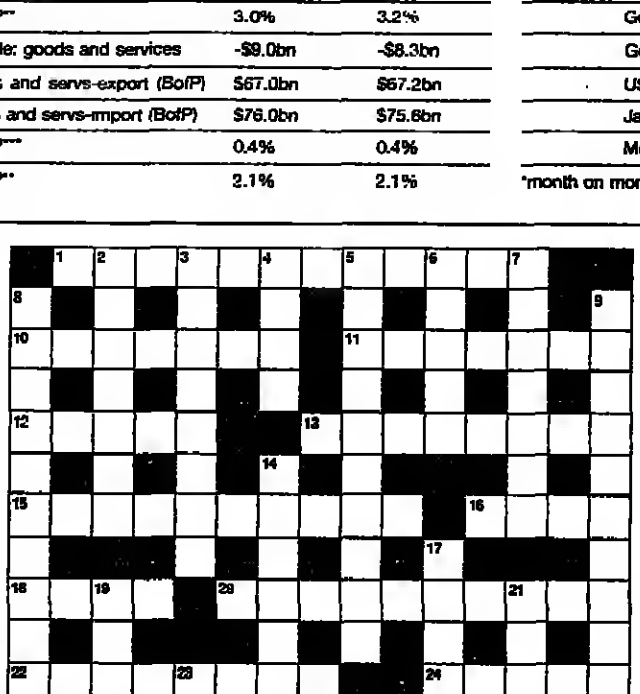
ACROSS
1 Bill on leaving, has the last word on the subject (5,7)
10 Bring out another edition of *Old Portuguese Currency* and prosecute (7)
11 Polish girl with spots (7)
12 Brother puts song back into father (5)
13 Well, in France, there's nothing about a two yearly cycle (8)
15 Makes smaller spy glasses (10)
16 Turn your back on reformed Germans? (4)
18 Detect the leading nationalists of southern Europe (4)
20 Make a bid to bring back part of love's entanglement (10)
22 Left over American spies join up in a non-professional way (8)
24 Weariness of English sister, shipwrecked on island (5)
26 Painting over exterior poses in the passages (7)
27 Exit result? (7)
28 Moneylender's demand, reduction of £1 at the French hospital (5,2,5)

DOWN
2 First letter (7)
3 Difficult to understand how the sea burst out (8)
4 Make a statement in Caversham (4)
5 Recording a different lot of errors that need amending (10)
6 Ban on football's return in the town (5)
7 Everything is in the Town Hall at a somewhat higher level (7)
8 Teacher, it lands so awkwardly in the black and red (6,3,4)
9 Fellow spiralling out of control with EC drop in values (7,6)
14 Stopped the redemption with warning about dole's working (10)
17 Relation moving from the east (8)
19 Run into another purist and get a foothold (7)
21 Managed a cry for help about first of many demands for money (7)
23 Farewell to a foreign god (5)
25 Fellow gets record turnover from the game (4)



MONDAY PRIZE CROSSWORD
No.8,947 Set by ADAMANT

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 28, marked Monday Crossword 8,947 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 1. Please allow 28 days for delivery of prizes.

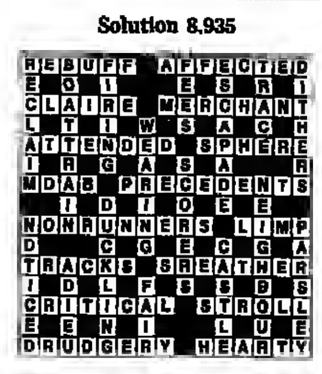
Name..

Address..

Winners 8,935

Joe Tabone Adami, Malta
H.J. Jolley, Athens
D.C. Godfrey, Richmond, Surrey
R. and J. Gedling, Epsom, Surrey
Robert Fiengo, New York
Greg Wagland, London SW1

Solution 8,935



The next Monday Prize Puzzle will be on Monday January 1

JOTTER PAD

هكذا من الأصل